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“B2B GUIDE TO UKRAINE”

A study on sales and distribution strategy

Case: Planmeca Oy

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ABSTRACT

This paper provides a study on existing situation of the product sales and distribution strategy of the dental equipment product in the market of Ukraine for the Finnish dental equipment manufacturing company Planmeca Oy. In particular, the thesis focuses on the manufacturer and its product distributor in Ukraine based on empirical data of a single case study. The thesis concentrates on the process of identification of other available and appropriate for Ukrainian market entry mode alternatives, their possible implementation into existing distribution approach, and formulating the main aspects that are significant for rewriting the map of the product distribution towards Ukraine. The background information and market analysis of the dental equipment business segment in Ukraine are introduced. The concept of marketing strategy, its derivatives and principles for the future development are discussed.

The market potential and competitive advantages of the Finnish manufacturing company and its product among other existing competitors on the market of Ukraine are explored and presented. The research approach of this thesis is deductive. In order to analyze the dental equipment industry of Ukraine and its market specific features on a deeper level, the theoretical models such as PESTLE and Porter's Five Forces are applied. In order to define manufacturer's major strengths, weaknesses, opportunities and threats, SWOT analysis is utilized. The critical issues and competences relevant to the product features and dental equipment market segment specific factors are discussed and evaluated.

The findings of this study indicate that other appropriate alternatives for entering market of Ukraine are available and their implementation into existing distribution approach is possible. The key aspects of the possible barriers and challenges for entering dental equipment market of Ukraine are assessed and represented. Based on conceptual discussion and the results obtained from the case study and performed analysis, adjustments to the existing product distribution strategy are proposed and recommended.

Key words: B2B, marketing strategy, distribution channels, Ukraine.

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ABBREVIATIONS

CIS - Commonwealth of Independent States

R&D - Research and Development

GDP - Gross Domestic Product

CBCT - Cone Beam Computer Tomography

EU - European Union

FDI - Foreign Direct Investments

WTO - World Trade Organization

GUAM - Georgia, Ukraine, Azerbaijan, Moldova

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1 INTRODUCTION

This chapter provides the necessary background information on the subject of study and brief introduction into the context of the research. In order to provide better understanding of the research work, this part explains the purpose and scope of the study, describes the knowledge base of the research, presents formulation of the research problem and defines research questions of the study.

1.1 Background information

A number of European companies have pointed their view on establishing and developing their businesses in East Europe or CIS countries in the last two decades. After Russia, Ukraine has the second largest population in the CIS area, and in terms of business opportunities is perceived as the market with very high potential. However, due to the fact that country's economy is still very young and under the status of developing, the notion of its potential requires in a very deep and careful study from the perspective of the long-term orientation and stable payoff for those who are interested in such potential.

Today the market place is radically different as a result of major, and sometimes interlinking, societal forces that have created new behaviors, new opportunities and new challenges (Kotler and Keller 2009, 55). A complex impact of societal, technological, economic and political factors has changed the notion of today's competitive environment very significantly (Lindgreen and Hingley et al., 2006). Customers perceive fewer product differences and show less brand loyalty, and they are becoming more price and quality sensitive in their search for value (Kotler and Keller 2009, 56).

Societal forces have made significant changes in the competitive environment to which companies should respond respectively. Traditional business philosophies such as focusing on only manufacturing efficiency, on only selling existing products, on only customers' needs and wants, or only on suppliers and keeping existing customers are outdated and not workable anymore.

Modern markets and consumers are more demanding in their decision making, and such circumstances are forcing companies to reconfigure, adjust or tailor their approaches and marketing management processes towards customers' specific needs and demands.

Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices (Armstrong and Kotler 2009). The key concept or philosophy of the outcome of any manufacturing firm is that all exist to offer products are made to satisfy the need of customers. In order to satisfy such needs, product must be made available to customers when, where and how they want them (Rosenbloom 2004, 34).

To be able to purchase a product or services, customers must have an access to it. The main purpose of distribution channels system is to provide an efficient means of getting products to customers and customers to the products. Channels of distributions are the part of marketing mix, while marketing mix is one of the key elements of the complete marketing strategy (Winer 1999, 46).

The strategy is all about creating a competitive advantage, where part of managing distribution is one of the key support components that affects the whole strategy. Strategic competitiveness results only when the firm is able to satisfy a group of customers by using its competitive advantage as the basis for competing in individual product markets (Hitt and Hoskisson 2007, 100).

Formulating and making decisions on choosing an appropriate distribution strategy is typically very complex and time consuming process. Such processes involve number of components, where company's management must take into account not only internal aspects such as resources and capabilities, but also various external factors related to the targeted markets.

A proper study on workable combination of all components involved in the strategy may help the company to construct a solid base for the formation of the additional instruments to tailor its existing approach, or develop completely new perspective to capture better opportunities and higher potential from the market.

The company Planmeca Group is the largest privately owned provider of the dental medical solutions in the Nordic countries and one of the biggest dental equipment manufacturers in the world. The company consists of six divisions operating in the field of health care technology. Since 98% of Planmeca Group's dental and medical solutions are exported to over 100 countries around the world, the company has acquired the Top 3 leading position of the dental equipment suppliers in the most of its target markets.

With help of revolutionary technologies, innovative R&D and successful industrial design, the company was able to position its brand and competencies at the top level among many other dental equipment manufacturers. Planmeca Oy is the biggest division of the Planmeca Group, which focuses on designing and manufacturing of dental units, digital imaging products and software solutions.

Strategically, the concept of developing market entry modes and company's product distribution networks in different target markets was tightly linked and connected with the company's development history, different business aspects and various factors related to the target markets specificity. Ukraine was one of the markets where company decided to establish its product distribution network through [REDACTED].

At the moment, company's sales in this particular market are [REDACTED]. In terms of development marketing strategy and successful distribution network, [REDACTED] has both positive and negative sides and consequences. With [REDACTED], the manufacturer is at some extend [REDACTED] for a certain period of time, but at the same time such conditions provide the manufacturer with the possibility to enter and appear on the market with less risks and level of uncertainties.

Ukraine is the second largest in terms of population country on the post Soviet Union territory. Between 2000 and 2007, the country enjoyed very strong economic growth, and now is considered as the market with fully functioning market economy. Market with population of more than forty five million has great potential for fruitful cooperation in many business sectors, but in order to capture

such potential, the processes involved in the market activities require in very precise understanding and detailed coordination.

In the context of strategic orientation and successful positioning on the market, theory offers a wide variety of market entry modes and market penetration possibilities. In general, Ukraine refers to the range of countries with developing economies, and due to its relatively unstable political situation, it is still considered as the high risks market for foreign investors.

The entry mode with use [REDACTED] degree of risks in comparison with other market entry alternatives is comparably low. However, in spite the fact that this entry mode is one of the safest and require in less financial investments, limitations arising from the use of [REDACTED] [REDACTED] position, where expectation from the market cannot be fully achieved.

One of the limitations is [REDACTED] [REDACTED] by the manufacturer. From the dealers' perspective, [REDACTED] [REDACTED] [REDACTED] [REDACTED] interests. In some cases such circumstances may lead to a creation of various negative consequences in the perception of manufacturer image and its products.

Without sufficient development of workable tools for controlling and adjusting existing product distribution approaches, and without having knowledge on other available market entry alternatives in case of uncertainties, the company may reduce its competitive advantage and can be left behind its competitors.

The main motivation of doing this research is to explore the rationality of the company strategic choice towards market of Ukraine, and how the company such as Planmeca Oy has reached these decisions. Aspects of how the whole operation is constituted, what are its conditions of possibilities from the Ukraine point of view, and how well this approach corresponds to the general knowledge in doing profitable business were also important components for motivation of this study. In comparison to a global market, Ukraine is a minor element, but yet it's quite

interesting to trace of how in a context of value-added chain, the company's management thoughts concerning this particular market were developed.

1.2 Objectives of the thesis

Discussion in the previous section shows that cooperation on [REDACTED] [REDACTED] for the manufacturer to distribute its product.

Development of other market entry or replacement alternatives is considered as an additional strategic tool to strengthen the manufacturer's position and its advantage on the market. However, the process of such development is not an easy task, especially for companies that operate on foreign markets. Even small changes or adjustments may lead to a conflict of interests and cause serious consequences for the company's image and position on the market.

Furthermore, recent changes in the business environment caused by an impact of various megatrends are in many ways have forced the manufacturers to follow up such changes, and imposes them to keep their marketing strategies up to date with the ability to adjust them in accordance with the current conditions on the market.

There are many solutions for the market entry modes exist in the theory through which manufacturer can establish its sales strategies and achieve various distribution objectives. Ability and readiness to respond quickly to changes with use of alternative entry modes may help the manufacturer to safe its position on the market and maintain the risks in the best and most appropriate way.

How well these theoretical concepts are applicable to the market of Ukraine, and do they really match with the market specific aspects from the viewpoint of the practical use? It's obvious that in theory any model can be developed and interpreted with the use of assumptions, but can these models really work without taking into account the practical side of their workability? In any case, assumption is a good way to begin with, and practical aspects can be then implemented to the base of the proposed model later on.

Moreover, in the practical sense, some specific factors such as culture, buying behavior and aspects relevant to the legal issues of the country are very unique, and in some instances can play even greater role for configuration of the strategy

and approach to the particular market. Therefore, in order to develop conjunction of workable market entry alternatives that can be at some extent applicable and useful for the market of Ukraine, a combination of theoretical concepts and practical knowledge are needed.

The overall objective of this thesis is to analyze current company's sales approach for the existing product distribution towards market of Ukraine in the context of the company's global operations. On the basis of this analysis, discuss other alternative modes of entering the Ukrainian market, and based on findings rewrite the map of the current company's approach.

Research questions:

- To explore market potential of Ukraine in the dental and X-Ray equipment segment;
- To make a critical analysis of the case company's existing sales and distribution strategy towards Ukraine;
- To make a comprehensive industrial analysis of the dental and X-Ray equipment segment in Ukraine;
- To analyze what are the other market entry modes and product distribution alternatives that are suitable for selling dental and X-Ray equipment in Ukraine;
- To discover the main aspects which have significant influence on the choice of distribution modes of the manufacturer's products in Ukraine;

1.3 Scope and limitations

The focus of this research work comes from the author's professional expertise and qualification as the area export manager and currently business consultant equaling B2B scope in his own professional career. The research focuses on development of the product distribution approach of the case company being based on comprehensive industrial analysis by critically analyzing an existing approach towards product distribution in Ukraine. This study illustrates closer

look at the existing distribution approach from the manufacturer's perspective, with the purpose to explore its key elements and other possible alternatives for the product distribution modes on the market of Ukraine.

Limitations are mainly consolidated in the range of in-depth analysis of the company's strategy approaches towards other target markets, partly in the data collection from the market of study, distributor's pricing policy on the market, and aspects relevant to the financial indicators in the B2C marketing segment.

1.4 Theoretical framework

Most producing and manufacturing firms, both large and small, however, are not in favorable position to distribute their products directly to their final user markets. Very often, they lack the requisite the expertise and the economies of scale (and/or scope) to perform all the distribution tasks necessary to distribute their products effectively and efficiently to their final users (Rosenbloom 2004, 34).

The distinctive attribute of the strategic development of the firm in international markets is that the firm transfers products and services, packages of tangible and intangible assets or resources across national boundaries (Bradley 1995, preface). Setting up the right channels for getting the product from its source to the customer involves a combination of direct selling and the use of various intermediaries and facilitators. Intermediaries include distributors, wholesalers, agents, manufacturers' representatives and retailers who are classified as merchants (Blythe and Zimmerman 2005, 209).

The use of distribution channel to display, sell, or deliver the physical product or services to the buyer or final user is referred to one of the key components of the marketing channels and considered as one of the core marketing concepts in reaching a target market (Kotler and Keller 2009). Company objectives and resources have a significant effect upon distribution choices, where the distribution strategy must be in congruence with the marketing strategy, which in turn, should be in agreement with the overall company objectives and strategy.

Besides this, distribution strategy has an important influence on a channel design, where firm must decide whether it requires intensive, selective or exclusive distribution (Blythe and Zimmerman 2005, 211).

1.5 Research method

In order to make this research more in-depth and properly linked with all aspects of its content, purpose and objectives, this study refers and focuses on a single case company. The company is a Finnish manufacturer of the dental and X-Ray equipment which mainly operates in the B2B sector, and has [REDACTED] [REDACTED] for the existing product in the market of study. The company was chosen to capture all required data and information for the research and analysis.

Due to the fact that the nature of the thesis is to focus on a specific market and product segment, the design of the exploratory research seems to be appropriate. In overall, the main objective of this exploratory research is to deeply formulate the nature of the problem, clarify and combine the concepts proposed in theory with the practical knowledge, provide clear understanding of all suggested ideas and their possible use in the market of study.

The methods used for collecting data in this research work are:

Primary research: questionnaires' and in-depth interviews with the company's management, existing partner and its product sub-dealers from the market of study;

Secondary research: theoretical concepts (books, articles, and electronic sources), data collection (secondary analysis and reports), statistics and available information concerning the company;

More detailed description and information about research approach and methods utilized in this study are represented in Chapter 3.

1.6 Structure of the thesis



FIGURE 1. THESIS STRUCTURE

2 INTERNATIONAL MARKETING MANAGEMENT

2.1 Foreign Marketing environment

According to Winer (2000, 442), foreign marketing is the extent to which a company is involved with sales beyond its home market. There are different degrees to which company decides to be involved with marketing to countries beyond its domestic market. Such degrees are: no direct foreign marketing, infrequent foreign marketing, regular foreign marketing, international marketing and finally global marketing. When company decides to move towards regular foreign market, it should take into consideration many different forces that affect the company and its products in international markets. The main forces of international marketing environment are shown in the Figure 2.



FIGURE 2. The international Marketing Environment (adapted from Russell S. Winer 2000, 444; Frank Bradley 1991)

Marketing in any new country brings new challenges in the form of differences in all of the forces represented in Figure 2, and despite enticing estimates of potential demand, many of these forces combine to make success hard to achieve, particularly in emerging markets (Winer 2000, 444).

2.2 Foreign market entry modes

When company decides to enter foreign market from a marketing perspective, the most important decision is to choose the mode of entry. The modes of entering a new foreign market are represented in the Figure 3.

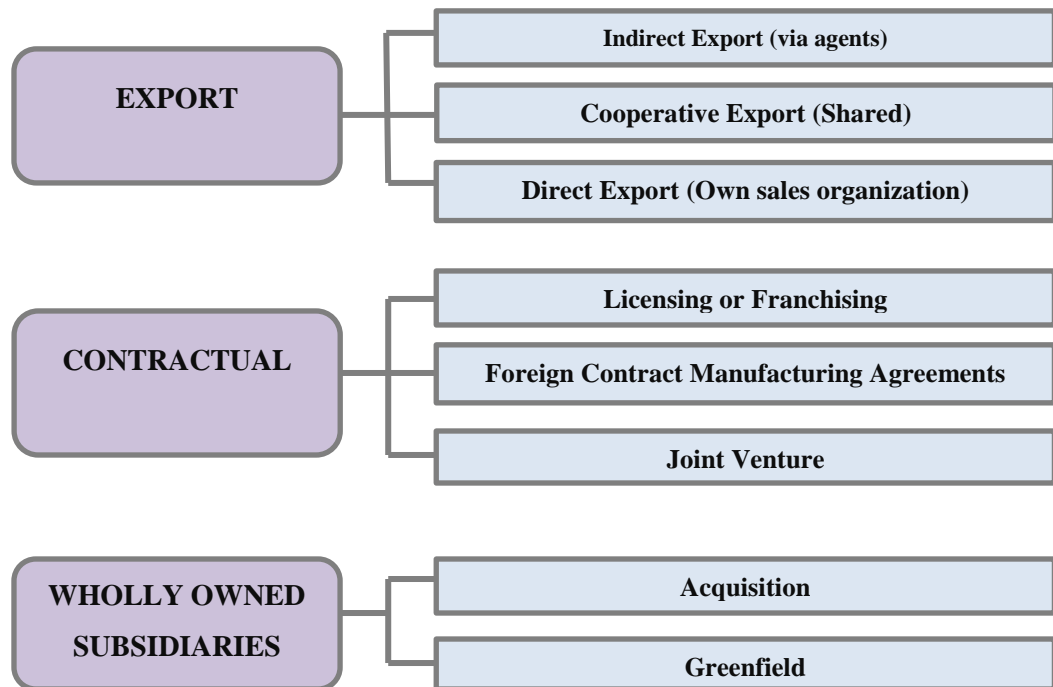


FIGURE 3. Modes of Operations (adapted from Russell S. Winer 2000, 455; Susan P. Douglas and C.Samuel Craig 1995)

Exporting - the most common approach to entering international markets Winer (2000). According To Onkvist and Shaw (1997, 328), exporting is a strategy in which a company, without any marketing or production organization overseas, exports a product from its home base. The main advantage of this approach is that this strategy easy to implement and risks are minimal, because the company simply exports its excess production capacity when receives orders from abroad. The main disadvantage of this strategy is that it is not always and optimal, because keeping international activities simple, together with a lack of product modification, make a company's marketing strategy inflexible and unresponsive Onkvist and Shaw (1997, 329).

Contractual – as shown in Figure 3, this mode of entry consists of three forms of agreements. The main difference between these forms is the subject of the contract. In manufacturing it can be technology for manufacturing, in licensing the

use of patented technology, trademark or brand name, and in the joint ventures it can be cooperation in the big international projects.

The last entry strategy is *wholly owned subsidiaries* or do-it-yourself approach. In other words this entry mode refers to establishing of own company-owned subsidiary in charge of manufacturing and marketing. Such entry can be done by acquiring an existing company or by building completely new company from the scratch.

2.3 Factors affecting entry modes

2.3.1 Environmental factors

According to Winer (2000, 449), there are five sets of factors when company attempts to decide of how to enter a new foreign market and which mode to choose. These factors are shown in the Figure 4.

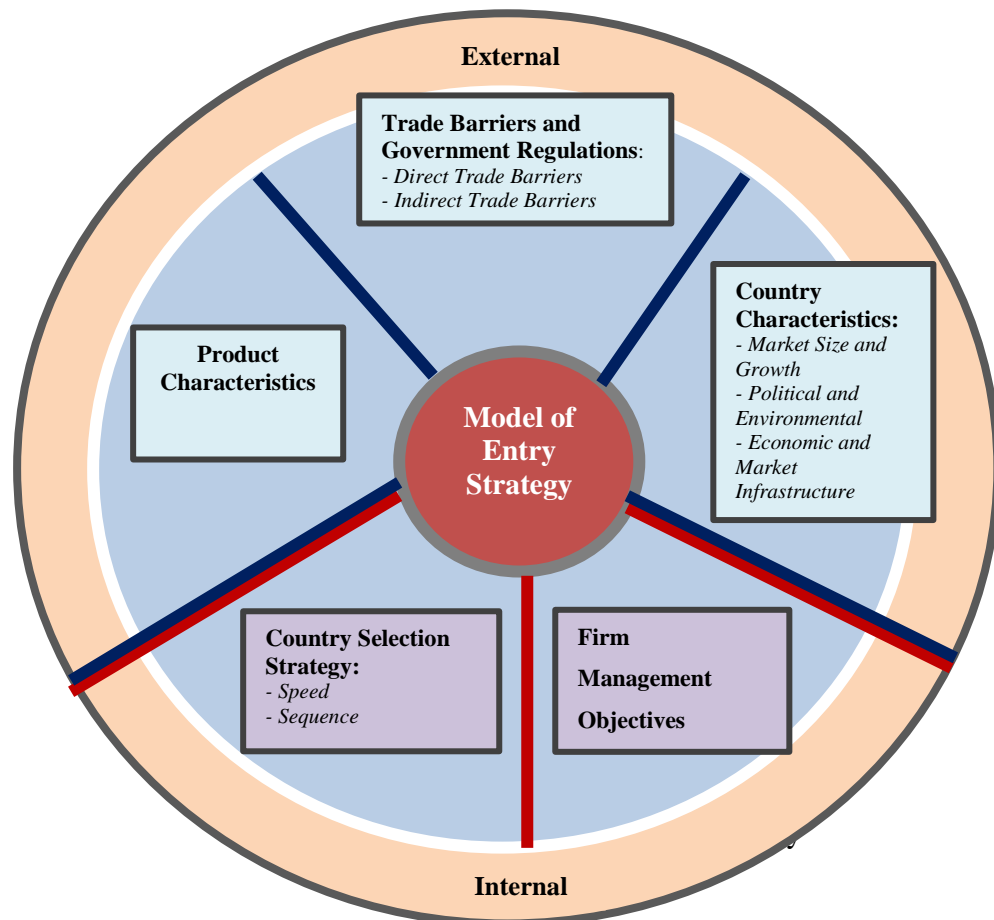


FIGURE 4. Factors Affecting Mode of Entry (adapted from Russell S. Winer 2000; Susan P.Douglas and C.Samuel Craig 1995)

External factors such as country characteristics, trade barriers, government regulations and product market characteristics are external to the firm and cannot be affected by the company. The other two are internal and can be affected with use of various management objectives and country selection strategy.

According to Winer (2002, 450-454), each of these factors and their importance in entry mode decision making can be described as follows:

- *Country characteristics:* the key aspects of this factor are the size of market and its growth. Large countries or countries with higher growth rates are more attractive and recognized as good place to make significant investments. Such trends have major effects on consumer spending which affects the derived demand. Therefore, making choice towards entry mode such as wholly owned subsidiary or sales force would be more reasonable. The next aspect is political and environmental risks. Changes in the political and legal environments may cause a firm to see a new market as attractive or a current market as unattractive Blythe and Zimmerman (2005, 102). If political situation in the country is unstable, the risks for investments are higher, and in such cases the choice of entry mode as exporting would be the most appropriate. The last aspect of this factor is economic and market infrastructure. Significant investments in countries with weak economics and poor infrastructures are also very risky, and this aspect should be always taken into account in any entry mode decision processes.
- *Trade Barriers and Government Regulations:* countries are very often having laws and restrictions on the ability of companies to operate freely. In some instances, quotas on import of foreign manufacturers' products are very high, where in such manner local governments are trying to support their domestic products and manufacturers.
- *Product Characteristics:* this factor refers to the physical characteristics of the product or service that can affect the way of how the market entry should be accomplished.

- *Management objectives*: the key aspect of this factor refers to the company's commitment to expand internationally, and more aggressive expansion objectives generate larger investments.
- *Country Selection Strategy*: the company's approach to country selection also affects the choice of entry mode and strategy. Depending on the level of economic and market risks, aspects such as country's long-term debt ratings, volatility, correlation and other economic indicators are playing an important role in the choice of an appropriate approach to enter the market. If country's economy is rated at "AAA" level, degree of the risks and negative consequences are lower, and company has much wider range of possibilities to select a market entry mode from different alternatives.

Blythe and Zimmerman (2005, 102), define major environmental factors for the market entry considerations in a quite similar way. They only add to the described above model a few additional factors which should be also taken into account in the decision process for choosing an appropriate entry mode. These factors are described in a context of competitive, technological and social/cultural environments.

2.3.2 Cultural and Consumer behavior factors

Questions "Who are the consumers?", "Why do consumers buy?", "How do consumers make purchase decisions?" and "When do consumers buy?" are the biggest issues and challenges for companies that want to market their products in foreign countries. Answers to these questions are hidden in the notion of understanding of cultural differences and customers behavior aspects. According to Winer (2002, 458), sensitivity to cultural differences is necessary for successful marketing of a product into a foreign country. Hofstede (2005, 400) defines culture as the collective programming of the mind that distinguishes the member of one group or category people from another. The main elements of the culture are: language, religion, values and attitudes, social organization, education, technology and material culture. Individuals and groups of people from different

cultures act differently and follow a certain criteria, rules, norms and existing habits of their own culture. They learn them by observing the other members or group of people behaviors, the ways of living, and by transmitting various cultural aspects through generations. Usually, representative of a specific cultural group share common values which are identified from the other people actions and attitudes.

Answers of how consumers respond to the various companys' marketing efforts and how they make an influence on customers' behavior for purchasing are shown in the Figure 5. According to Armstrong and Kotler (2009, 163), marketing stimuli consists of the Four Ps (product, price, place, promotion) and other stimuli such as major forces and events in the buyer's environment (economic, technological, political, and cultural).

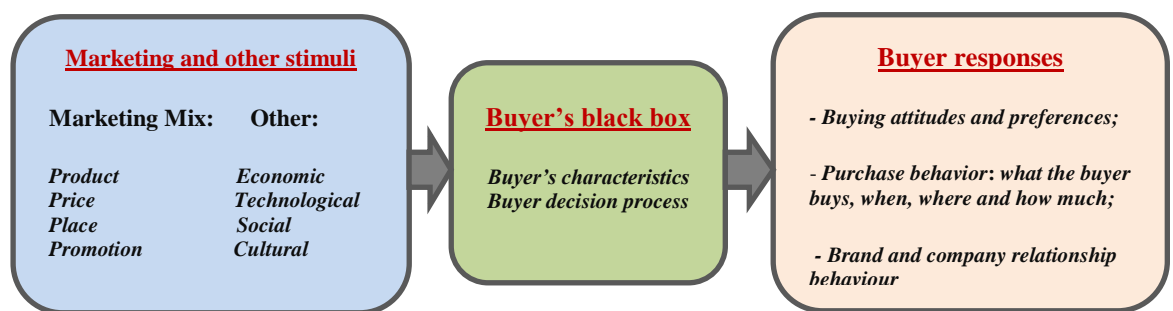


FIGURE 5. Model of Buyer behavior (adapted from Armstrong and Kotler 2009, 163)

According to (Armstrong and Kotler, 2009, 164), there are certain significant factors that affect decision to purchase a product or services. These factors refer to the cultural, social, personal and psychological characteristics which are represented in the Figure 6.

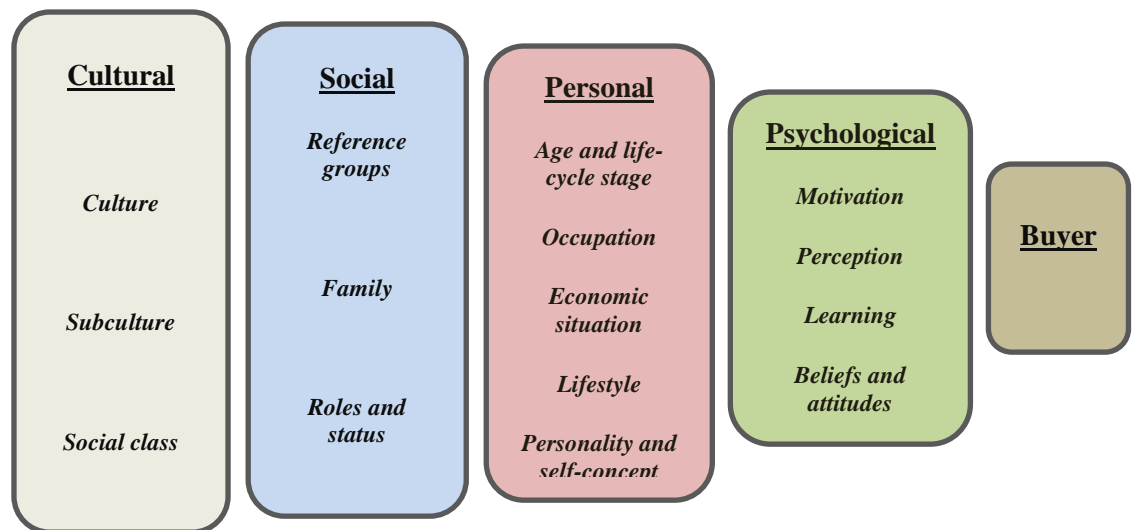


FIGURE 6. Factors influencing Consumer behavior (adapted from Armstrong and Kotler 2009, 164)

From a marketing perspective, culture is the most basic cause on a customer's wants and behavior. This factor is determined as the set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions (Armstrong and Kotler 2009, 164). Subculture is the second aspect of the cultural characteristic and can be determined when a group of people share value systems based on common life experiences and situations. The third aspect is social class, which is relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors (Armstrong and Kotler 2009, 163-167).

Social factors of the consumer's behavior are characterized by an influence of small groups, family, social roles and status. A good example of group can be online social communities where people socialize and share their opinions. Family members are also having a very strong influence on the buyer behavior. The role and social status are the last aspects of the social factor; usually people choose products appropriate to their roles and status.

Aspects of the personal factor represented in Figure 5 mainly refer to the different patterns of living, unique psychological characteristics that lead to relatively consistent and lasting responses to the environment, and aspect generated by the economic situation.

The psychological factor refers to the aspects of level in motivation, perception of information, descriptive thoughts about something, experience, favorable or unfavorable evaluations, feelings, and tendencies towards an object or idea.

2.3.3 Proactive and Reactive factors for entry foreign markets

According to Czinkota and Ronkainen (2004), motivations for foreign market entry divided into two types: proactive and reactive. Proactive motivated companies are looking for profit advantages, unique products, technological advantage, exclusive information, managerial commitment and economies of scale. Reactive motivated companies are motivated by competitive pressures, overproduction, declining domestic sales, excess capacity, maturity/decline stage of product life cycle, proximity to customers and ports. In general, companies with proactive motivation are the most successful in international markets, because they attempt to secure a market position internationally rather than simply react to orders from outside their domestic markets (Blythe and Zimmerman 2005, 105).

2.4 Assessing of growth opportunities

After all factors have been analyzed and foreign market entry mode is selected, the next step is to determine which market strategy should be applied. Depending on the level of degree and changes in each factor affecting the entry mode, the company may either to see market as more attractive and give a push for expanding its activities, or more unattractive where company is forced to leave the market.

According to Kotler and Keller (2009, 85), there are three types of opportunities exist for the growth: intensive, integrative, downsizing and divesting older businesses. They also stated that markets can be treated with use of different strategies. These strategies are market-penetration, market-development, and product-development and diversification strategy.

Based on theory, before company decides in which direction to growth, it should take into account and assess the following opportunities Kotler and Keller (2009, 85):

1. Whether it could gain more market share with its current products in their current markets by utilizing a market-penetration strategy;
2. Whether it can find or develop new markets for its current products by utilizing a market-development strategy;
3. Whether it can develop new products of potential interest to its current markets by utilizing a product-development strategy;
4. Whether it can develop new products for new markets with use of diversification strategy;

For the intensive growth Ansoff (1957) proposed a product-market expansion guide which is shown in the Figure 7.

	Current Products	New Products
Current Markets	1. Market-penetration strategy	3. Product-development strategy
New Markets	2. Market-development strategy	(Diversification strategy)

FIGURE 7. Ansoff's Product-Market Expansion Grid (adapted from Blythe 2005, 102; Ansoff 1957)

2.5 Marketing Mix

The marketing mix is the set of four broad marketing-mix tools which supports marketing activities to create, communicate and deliver value for consumers Kotler and Keller (2009, 62). The marketing mix decisions are playing vital role

for influencing trade channels and their final consumers. Winer (2000, 46), described marketing mix as the set of decisions about price, channels of distribution, promotion and communication, which should be considered as an integral element of a complete company's marketing strategy. Rosenbloom (2004, 159) and Fites (1996) stated that developing the right combination of the 4Ps, with consideration of the contribution of each variable in meeting the demands of the target market is to provide and maintain the desired level of satisfaction. The marketing mix and its components are represented in the Figure 8.

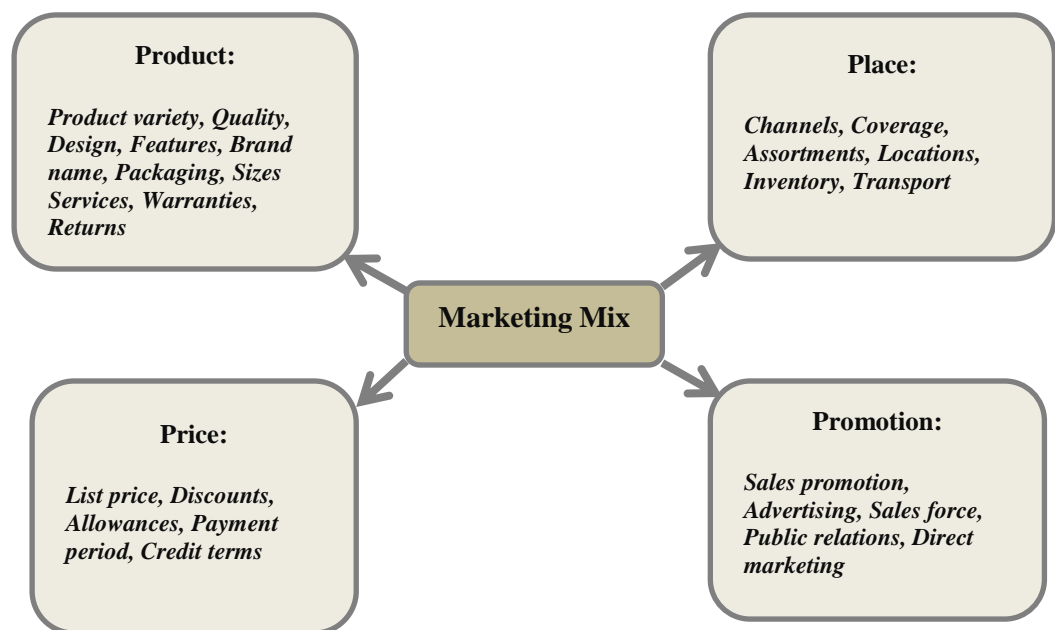


FIGURE 8. The Four P Components of the Marketing Mix (adapted from Kotler and Keller 2009, 63)

From the sellers perspective the concept of four Ps represents the view on the marketing tools available for influencing buyers, and from a buyer's perception each marketing tool is designed to deliver a customer benefit. The company can change its prices, sales force size, and advertising expenditures in the short run, but develop new products and modify its distribution channels only in the long run Kotler and Keller (2009, 63).

2.6 Marketing channels

Marketing channel (or distribution channel) is a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user (Armstrong and Kotler 2009, 326).

According to Rosenbloom (2003, 326), a marketing channel is the network of organizations that creates time, place, and possession utilities for consumers and business users. Roger Cartwright (2002, 267), defines channels of distribution as the means by which goods and services are transferred from the manufacturer or originator to the end user (the final customer).

Rosenbloom, (2004, 159) defines distribution as the fourth variable of the marketing mix, and as a basis that can offer a more favorable conditions for developing a competitive edge because advantages achieved in distribution are not as easily copied by competitors as the other three variables.

Kotler and Keller (2009, 450), defined marketing channels as the tool to represent a substantial opportunity costs, where one of their chief roles is to convert potential buyers into profitable customers. They also mentioned that marketing channels must not just serve markets, they must also make markets.

Winer (2000, 235), stated that one way to think of channels of distribution is the way of how to build a value-added chain. The beginning of the chain consists of suppliers that provide raw materials, labor, technologies or other factors of production and then firm uses channels or intermediaries that enable customers to gain access to the product or services. The concept of distribution channel as Value-Added chain is shown in the Figure 9.



FIGURE 9. Value-Added Chain of Distribution Channels (adapted from Russel S. Winer 2000, 235)

This is very simple interpretation, where channels of distribution are shown as end customers or consumers, and where they are illustrated as an extension of the firm. In this case channels which are not owned by the company must be convinced to carry the company's products and end customers must be convinced to buy them. Such noncaptive channels in the Value-Added Chain of Distribution are attractive if managers use a variety of promotional devices to support and motivate them to sell the product, or if channels are ready to distribute products because customers want them. Retailers or distributors want to be sure that manufacturer is also ready to invest and pay attention for attracting customers and get them to want its brand.

2.6.1 Type of marketing channels

According to Cartwright (2002, 268), distribution channels have been traditionally divided into two major types: short channels and long channels. The short distribution channel consists of either a combination such as: *supplier-customer* or a combination of *supplier-intermediaries-customer*. In many cases retailers are situated much closer to the customer than the manufacturer, and they always act as the points of intersection between products and customers.

Armstrong and Kotler (2009, 326), defined two types of distribution channels, direct and indirect. Direct channel has no intermediary levels and through such channel company sells its product directly to consumers. Indirect channels contain one or more intermediaries, and sales flow processes are mainly organized through them.

Kotler and Keller (2009, 456), defined two types of marketing channels, consumer marketing channels and industrial marketing channels. In industrial marketing channels companies use their own sales force to sell directly to business customers. In consumer marketing channels companies sell their product or services directly or with use of intermediaries to the end users or customers.

Channels are also distinguished in terms of product movements, and such movements can be forward-flow channels (from source to user) or reverse-flow

(from user to the source). The purpose of reverse-flow channels is to reuse, refurbish, recycle, and dispose of the product.

Types of marketing (distribution) channels in B2B environment are represented in the Figure 10.

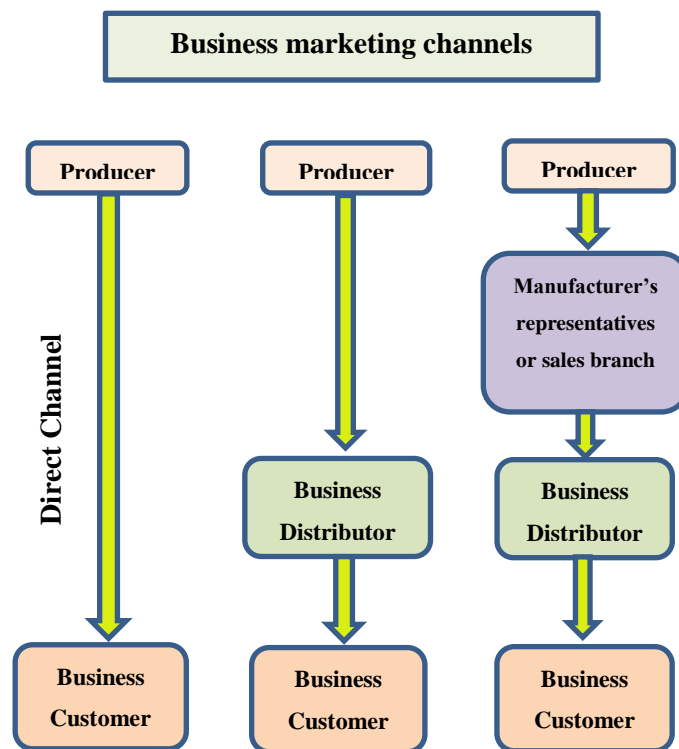


FIGURE 10. Business marketing channels (adapted from Armstrong and Kotler 2009, 328)

2.6.2 Length and intensity of marketing channels

The concept of length of the distribution channel is mainly refers to the quantity of intermediaries used in the channel of distribution, where structure of the channel is depending on the customer-based factors such as size, their geographical dispersion, and their particular behavior patterns (Rosenbloom 2003, 328).

The nature of the product such as technical complexity, value, perishability, and its bulk and weight are very sensitive aspects and affects the length of the channel. Moreover, the size of manufacturer, its financial capacity and desire to control the distribution of the product are also very reasonable aspects for constructing a shorter channel structures. The shorter is channel, the higher degree of the control it has (Rosenbloom 2003, 328).

From the manufacturer's point of view, the more intermediaries channel consist, the more difficult it will be to control it and obtain necessary information about end users (Kotler and Keller 2009, 456).

The notion of channel intensity is described in the literature as the types of distribution. Rosenbloom (2003, 328), stated that distribution can be intensive, selective or exclusive.

Intensive distribution means that all possible intermediaries at the particular level of the channel are used, and in general this type of distribution is mainly associated with the distribution of convenience goods. Selective distribution implies a smaller number of intermediaries and usually associated with the shopping goods. Exclusive distribution refers to only one intermediary used at a particular level of the marketing channel to cover a defined territory, and mainly associated with the specialty goods (Rosenbloom 2003, 328-330).

2.6.3 Channel members role and functionality

Armstrong and Kotler (2009, 326), mentioned that producers use intermediaries because they create greater efficiency in making goods available to target markets and through their contacts, experience, specialization, and scale of operations offer the firm more than it can achieve on its own. Intermediaries can provide economies, where they reduce the amount of work which must be done by both end users and manufacturers.

Figure 11 represents an example of how the distributors bring value to the manufacturer through reducing amount of work.

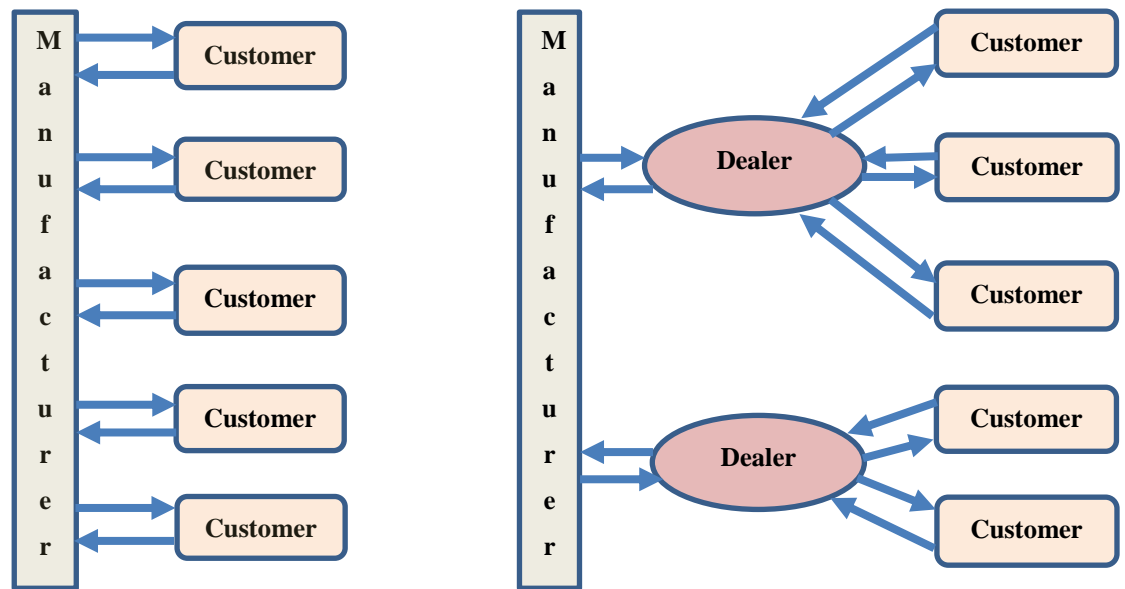


FIGURE 11. Distribution without dealers, Distribution with two dealers (adapted from Armstrong and Kotler 2009, 327)

Figures above show that without distributors, the system requires in 10 different contacts, while with only two dealers in the same market, the manufacturer can reduce its amount of work by 2, 5 times with only having 4 contacts.

In addition to this, channel members add value by bringing the major time, place and possession gaps that separate goods and services from those who would use them.

The key role of intermediaries is that from one side they serve the customers and from another side they serve the manufacturers (Blythe and Zimmerman 2005, 209).

The following Figure 12 represents the main aspects of how distributors serve customers and manufacturers in some or all of the following ways.

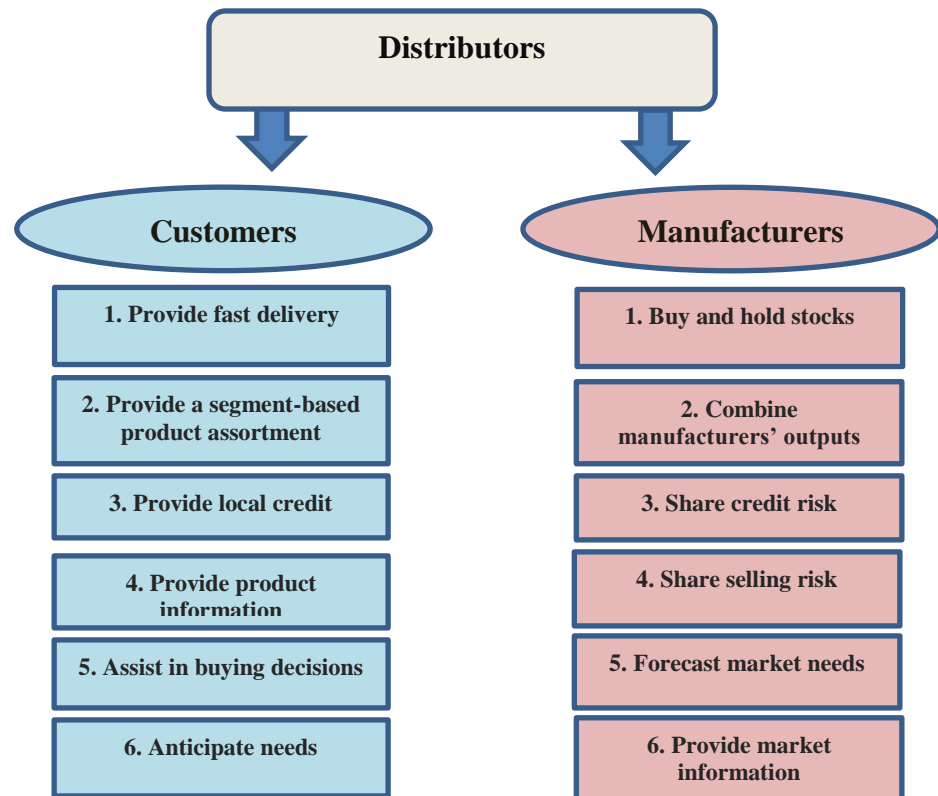


FIGURE 12. Serving the customer and manufacturer (according to Blythe and Zimmerman 2005, 209)

According to Blythe and Zimmerman (2005, 209), functionality and the role of distributors in marketing channels represented in the figure above can be described as following:

As to the manufacturer:

- Local distributors hold stock of products, in order to have an ability to response and supply customer needs rapidly;
- They may well be able to supply a wide range of products which are suitable for the needs of a specific market segment;
- A distributor may be able to provide credit facilities for firms, by having a local knowledge and ability to decide who is creditworthy and who is not. A foreign manufacturer may have no idea where to start obtaining credit ratings;
- Local distributors may have knowledge of other products which are useful to the customer and which are complementary to the firm's products;

- Distributors are often able to advise on the availability of components, or are able to research availability from among the manufacturers viewpoint, since distributors may carry several alternative components, some of which are likely to be “generic” components which are substantially cheaper than the manufacturer’s own offerings;
- Due to the fact that distributors know the local market, they are often able to anticipate the needs of their customers and advise manufacturers accordingly;

As to the customers:

- Distributors are the customers of the manufacturers, since they select, buy and pay for the goods. The manufacturer is thus relieved of much of the financial and logistical responsibility of holding stocks;
- Since customers almost always buy from a number of manufacturers, they will be exposed to the firm’s product when they order products from other manufacturers. This in effect provides a “piggy back” promotional method;
- The distributor may offer credit to their own customers and carry the risk for this: even though the manufacturer will offer credit to the distributor in order to allow them to stock the products, the risk is still smaller;
- The distributors have a stake in making the sales, since they have committed to purchasing the products. Obviously there is an assumption that the products are saleable and an assumption that the manufacturer will play a part in marketing the products, but both parties have a clear stake and commitment in the success of the product;
- Distributors are much closer to the market than the manufacturers and therefore they are in much better position to forecast demand from the market;
- The distributors are a good source of information regarding possible new needs of the customers, and this aspect can be very helpful and play an important role in the product development for the manufacturer;

2.6.4. Vertical marketing systems

According to Armstrong and Kotler (2009, 330), vertical marketing system refers to a distribution channel structure in which producers, wholesalers and retailers act as a unified system, where one channel owns the others, has contract with them, or has so much power that they all cooperate.

Vertical marketing systems consist of corporate, contractual and administered systems. These systems are defined by Armstrong and Kotler (2009, 333) as following:

- Corporate VMS is a system that combines successive stages of production and distribution under single ownership, where channel leadership is established through common ownership;
- Contractual VMS is a system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact they could achieve alone;
- Administered VMS is a system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties;
- Franchise organization VMS – is a system in which a channel member, called a franchiser, links several stages in the production-distribution processes;

2.6.5 Multichannel (Hybrid) distribution

Multichannel or Hybrid channel distribution system is a distribution in which a single firm sets up two or more marketing channels to reach one or more customers segments (Armstrong and Kotler 2009, 333). A basic model of multichannel distribution system is represented in the Figure 13.

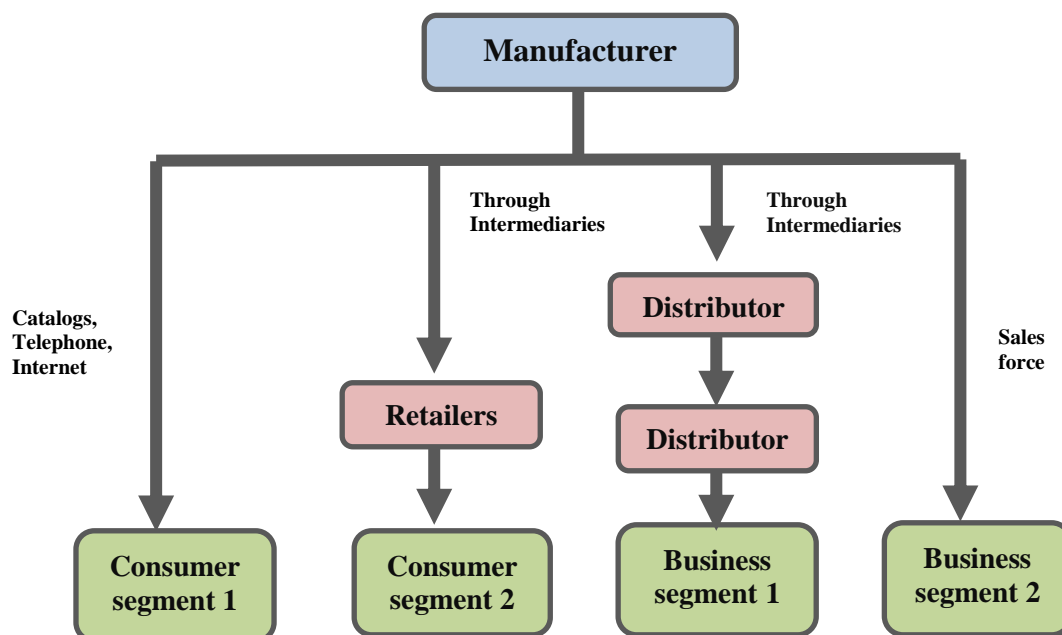


FIGURE 13. Multichannel Distribution System (adapted from Armstrong and Kotler 2009, 334)

According to Kotler and Keller (2009, 452), companies that manage hybrid channels must make sure that these channels work well together and match each target customer's preferred ways of doing business.

Multichannel distribution systems offers many advantages to companies facing large and complex markets, where with each new channel, the company expands its sales and market coverage's and gains opportunities to tailor its product and services to the specific needs of diverse customer segments (Armstrong and Kotler 2009, 334).

2.7. Market entry alternatives, summary

By taking into account the concepts described in the previous sections, product distribution channels, their structure and varieties are playing significant role in the selection of market entry modes and in the complete company's marketing strategy towards targeted market.

Different internal and external factors are putting marketing managers in a situation where they should always take into account and at some extend accept some possible risks and consequences. Therefore, if company decides to enter particular market, it should be always ready to define its strategic direction in terms of product distribution and possible alternatives to maintain the risks and

ways out in case of uncertainties and unexpected situations. By understanding of which mode to choose and which channels of distribution in a particular market are workable, the firm becomes strong in terms of gaining its strategic advantage.

Depending on the company's objectives, a combination of entry modes and channel alternatives can be selected in accordance with the most important considerations that allow the company to achieve its strategic goals and gain desirable results from the targeted market.

Blythe and Zimmerman (2005, 111-112), described the most important considerations for the various market entry alternatives in B2B environment by comparing them with each other. A summary on comparison of different market entry alternatives is represented in the following table.

TABLE 1. Comparing selected market entry alternatives (adapted from Blythe and Zimmerman 2005, 111-112)

Entry Mode Consideration	Indirect Export	Direct Export	Licensing/ Franchising	Minority Joint Venture	Majority Joint Venture	Sole Venture	Contract
Resources Required	Very little	Minimal capital- must manage effectively	Minimal capital- human resources may be significant	Significant, but less than majority joint venture or sole venture	High for capital and human resources	Highest level of any alternative	No capital – can be significant human resources
Potential Risks	Low risk of any kind	Low risk of loss	Risk of establishing competitor (licensing)	Significant for investment – differences between partners	Significant for investment – differences between partners	Assume all risk for investment	Low
Experience Gained	Limited	Some experience in foreign markets	Limited	May be limited – take advantage of local knowledge	High – some local knowledge	High – no local knowledge in ownership position	Limited
Return on Investment	Limited	Good	High but gross margin limited	May be good	May be excellent	May be excellent	N/A
Host Government Reaction	None	Limited	May be unfavorable	Generally favorable	May be unfavorable	May be unfavorable	None
Control Capabilities	Limited	Possible loss of control of marketing	Possible loss of control of quality and/or marketing	Less than majority joint venture or sole venture	High	Highest possible	High
Other Considerations	Easy way to explore international business	Good first learning step	May be only way into market – need to keep intellectual property registered	May be required by government	Many firms prefer this	Protect company secrets	Meets specific needs

3 RESEARCH APPROACH AND METHODS

This chapter presents an overview of the research approach adopted in the study. It identifies the principles of the research methodology and procedures used for helping in examination of interplay between context and methods utilized in this research work. Furthermore, this chapter provides a deep insight of how data was collected, and how with use of research design structured plan was processed and analyzed in order to accomplish the purpose of the research. Finally, this chapter presents the key data quality measures applied in the study.

3.1 Purpose and research method perspective

According to Saunders et.al (2007), the data can be obtained from two sources: secondary research and primary research. The main difference between those is the way of how information is collected. Primary research focuses on gathering original information directly to the purpose and includes surveys, direct observation, interview and focus groups. Secondary research focuses on gathering existing information through available sources such as books, articles, internet sources, existing research results, etc.

Determination and the choice of an appropriate research method are very much depending on the purpose of the research. Myers (2009) defines research as an original investigation undertaken in order to contribute to knowledge and understanding in a particular field. According to Yin (2008), there are three types of purposes that can be determined for the research: explanatory, descriptive and exploratory.

Different authors have defined an exploratory research method as a methodological approach that is primarily concerned with discovery and with generating or building a theory. This particular research consists of both discovery and generation of the new or redesigning an existing approach towards company's distribution strategy in Ukraine. By taking into account objectives and the nature of this study, the choice of purpose for an exploratory research seems to be the most adequate.

3.2 Research approach

According to Hyde (2000), there are two basic types of reasoning that might drive to the acquisition of new knowledge, inductive and deductive. The difference between these two types of reasoning is that inductive is a type of thinking that moves from a specific case to more general, and deductive thinking moving from general to a more specific case.

Arguments in inductive reasoning are induced or expressed inductively, and mainly based on the experience or observations. Deductive reasoning considers arguments which expressed deductively or deduced, and which are based on a widely accepted principles or theories. Deduction of a phenomenon from a theory or hypothesis implies to make a prediction, but such procedure mainly refers to an expectation whose truth needs to be tested.

At the beginning, while examining which research approach would fit better to the context of this study, inductive research was identified as the most suitable. The original idea was to conduct this study based on investigation of the main theoretical concepts corresponding with the scope of the research objectives, establish a theoretical framework and compare all findings with a real life data.

After a deep investigation of all aspects, criteria and components which are involved in this research work, the decision was changed and directed in favor of deductive approach.

The main reason for changing decision can be interpreted with use of definition of inductive approach and key arguments used in this research work. A logical flow of the idea of how key aspects were allocated for choosing deductive approach is shown in the Figure 14.

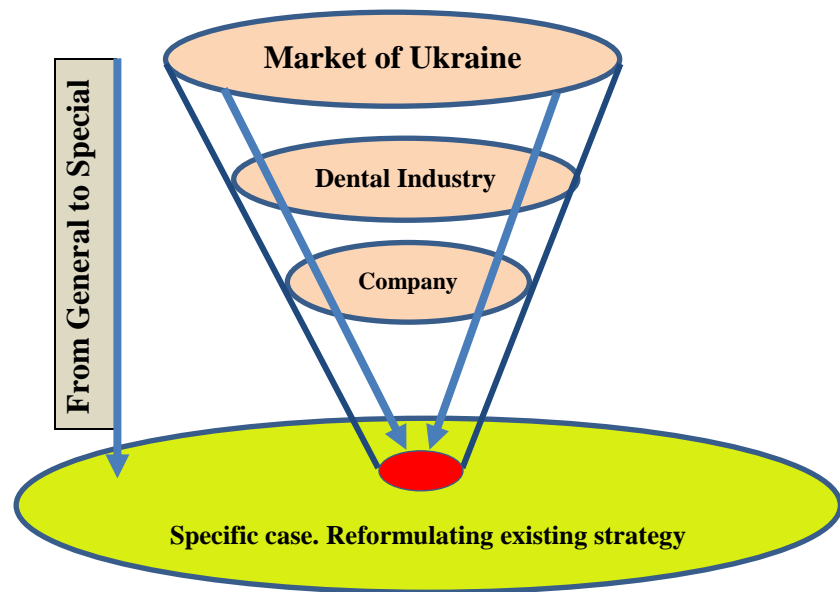


FIGURE 14. Deductive approach

3.3 Research methodology

Research method utilized in this research work is qualitative. According to Saunders et al. (2007), a qualitative research method is connected with deeper understanding to solve the specific problem area. A qualitative method is usually used to study a small sample on a more profound level, where the aim of such study is to create a better understanding of the specific problem which is being investigated). Interpretive qualitative research methods are valuable for in-depth understanding of phenomena in the marketing domain, in managerial and consumer context Carson and Gilmore (2001, 64).

According to Webb (2002, 112), Gordon and Langmaid (1988), qualitative research is used optimally for situations which will increase understanding, expand knowledge, clarify the real issues, generate hypotheses, identify a range of behavior, explain and explore consumer motivations, attitudes and behavior, identify distinct behavioral groups and provide an input to a future stage of research/development.

The qualitative method of the research was chosen for several reasons. The main reason is the scope and nature of the study and its direct relation to the marketing

domain. A deep understanding of the meaning of distribution strategy and its derivatives in the overall marketing strategy phenomenon is one of the key patterns of this research work. In addition, this study involves a part of the data collected with use of observations and semi-structured interviews from different participants involved in this research work.

3.4 Research design

The concept of research design was defined with use of various definitions. Kerlinger (1986, 279) defines research design as the plan, and structure of investigation so conceived as to obtain answers to research questions. Reis and Judd (2000, 17) defined research design as the systematic planning to permit valid conclusion. Burns & Grove (2009, 43) define a research design as “a blueprint for conducting a study with maximum control over factors that may interfere with a study’s desired outcome”. In Kerlinger’s definition the plan includes a research decision concerning research strategy, research settings and operational definitions and measurements of the study constructs of interests.

This study has been conducted with the use of exploratory research, which was performed through utilization of theoretical interpretation of the main concepts in the scope of research questions and by interviewing a certain focus group of people. The key arguments for choosing this particular research can be described as following:

- Exploratory research is flexible and addressed to all types of research questions such as what, why, and how.
- It provides with an opportunity to clarify existing concepts and define new ones.
- It gives a possibility to generate assumptions, formal hypotheses and develop more precise research problems.
- It helps to establish and set up research priorities.

3.5 Research process

Research process of this study consists of three principal stages:

Stage one - the process of collecting of all primary and secondary data necessary for the initial skeleton of the research subject. In order to bring a deep understanding of the research subject, this stage consists of extensive literature review on a conceptual interpretation of distribution strategy, its derivatives and their role in the overall marketing strategy. Furthermore, this stage includes collecting of primary data on the current situation of the case company.

Second stage - the process of interpreting and processing of all collected data with the use of different analysis and tools for transforming the processed data into structured frame of findings and outcomes.

Stage three - the final and mainly refers to the process of summarizing and concluding main findings based on theoretical knowledge and practical implications. Additionally, this part consists of author's recommendations for the use of other possible distribution solutions, as well as some more specific advices to reconsider a certain aspects in the existing product distribution approach towards Ukraine.

3.6 Case study

According to Yin (2008), there are several alternatives that can be applied for the research strategy: experiment, survey, archival analysis, history and case study. He also mentioned that each of these research strategies follows its own logic in collecting and analyzing the data. The case study research is useful when a how or why questions is being asked about a contemporary set of events which the investigator has little or no control (Yin, 1994, 9). In B2B researches, case study approach is used very widely, because it examines the decisions and behaviors of different participants involved in the context of organization.

By taking into account the initial purpose of this study and all components involved in this research work, strategic approach in a form of case study seems to be logical and adequate. In order to provide a practical contribution to the theory, this method was selected to investigate an empirical part of the research. The main purpose of this method is to collect, present and analyze all necessary valid and reliable data, which will be then used as a core basis in this research work.

3.6.1 Data collection

The primary data was collected by the researcher directly, with use of multiple methods of data collection such as semi-structured face-to-face interviews and various observations. Interviews were conducted within the time period June and October 2013. This technique was applied in order to provide a deep insight of both, the manufacturer's management perception on the current product sales and distribution strategy towards Ukraine, and the perception of existing distributor's management personal who offers the manufacturer's products in this particular market.

Due to the fact that author of this research is currently employed in the company of the case study, the original data such as current financial indicators, quantities, volume and previous sales information are obtained directly from the report generating system and annual reports of the case company.

The secondary data was collected with use of desk research method and mixed data sources. This method refers to the secondary data analysis and involves gathering data that already exists. Main sources for collecting secondary data used in this research work are: literature, sales and annual reports, product and company presentation materials, articles, various internet sources.

3.6.2 Data analysis

In order to describe the value and the sense of collected data, the process requires in a logical stepwise structuring and subsequent interpretation of its meaning. The main challenge of this procedure is to identify and select the most significant components from the total amount of information, and construct a proper framework where chosen patterns represent direct interrelation and connection to the essence of the research problem. For qualitative data analysis Miles and Huberman (1994) recommended to use a three-stage method which consists of data reduction, data displaying and data verification (conclusion drawing).

Data reduction is the first stage of this method. The main objective in this step is to generate meaning from the total amount of information and arrange the data in the way which will provide the researcher with possibility to draw and verify

conclusion. The main processes in this stage are: selection, simplification, abstraction and transformation of the data into categories, frames and patterns.

Data displaying is the second stage of this method. When all necessary data has been selected and unnecessary data excluded, selected data should be assembled and displayed in a compact, accessible, well organized and systematic manner. Data displaying can be arranged with use of graphs, tables, charts, matrixes and other techniques for transforming information into visual format. Visualization of selected information simplifies the readers to read and researches to draw a valid conclusion.

The third stage is the final and consists of processes such as conclusion drawing and verification. In this stage the researcher must evaluate and decide the meaning of certain data, explanations, patterns and propositions, and should consider alternative interpretations where the final meaning of the data have to be tested in terms of its validity.

After reviewing and analyzing all available data, the process of selection of only relevant and the most essential information was organized by extracting of the key and significant components matched into the frame of the study, and by reducing the data with partial or indirect relation to the concept of the research. Then filtered data was analyzed again and all key points and relevant words were marked and extracted from the text in a form of different codes.

The next step was to group extracted information and codes, and categorize them into similar meaning concepts and specific empirical instances. This step has been worked out with the use of analytical activity such as comparison. In order to show the sense and conceptual relevance of extracted data, the data was interpreted from both perspectives: data towards theory and theory towards data. Various tables, graphs and charts were utilized for the data displaying and interpretation. In order to draw summary and conclusion, all empirical findings and outcomes were verified with the concepts of the theoretical framework.

3.7 Data quality

Due to the fact that research design is supposed to represent a logical set of statements, the quality of any given design can be judged with use of certain logical tests (Yin 2003). According to Webb (2002, 147), there are three concepts which help to assess the quality in marketing research design.

These concepts are: reliability, validity and sensitivity. Validity and reliability are the most commonly used concepts, where relationship between these two variables is always an asymmetrical. A valid measurement is always reliable, a reliable measurement may not be valid Webb (2002, 148).

3.7.1 Validity

Validity is the extend to which a scale of measurement is capable of measuring what it is supposed to be measuring. A valid measure detects only real differences in the characteristic of interest Webb (2002, 148). Yin (2003, 34) recommended to use in case study research a four design tests with various case study tactics. The following Table 2 shows a cross-reference of each test components with case study tactics and phase of the research in which tactic occurs.

TABLE 2. Case Study Tactics for Four Design Tests (adapted from Robert K. Yin 2003, 34)

TESTS	Case Study Tactics	Phase of research in which tactic occurs
Construct validity	<ul style="list-style-type: none"> • Use multiple sources of evidence • Establish chain of evidence • Have a key informants review draft case study report 	<ul style="list-style-type: none"> • Data collection • Data collection • Composition
Internal validity	<ul style="list-style-type: none"> • Do pattern matching • Do explanation building • Address rival explanations • Use logic models 	<ul style="list-style-type: none"> • Data analysis • Data analysis • Data analysis • Data analysis
External validity	<ul style="list-style-type: none"> • Use theory in single-case studies • Use replication logic in multiple-case studies 	<ul style="list-style-type: none"> • Research design • Research design
Reliability	<ul style="list-style-type: none"> • Use case study protocol • Develop case study database 	<ul style="list-style-type: none"> • Data collection • Data collection

Using the Four Design Test technique, quality of the research in terms of validity and reliability was ensured through the following procedures:

Construct validity - at the stage of data collection multiple sources of evidence were reviewed and various patterns of information relevant to the research scope were utilized. The chain of evidence was established based on real differences in the characteristic of interest, where specific types of changes were selected in relation with the original objective of the study. In order to verify the data obtained from interviews, various observations together with data analysis and theoretical interpretations of the phenomena were utilized.

Internal validity - at the stage of case study analysis, various patterns have been matched in order to observe empirical events in relation with the theoretically predicted. Building explanation was conducted based on analyzing the case study based on explanation of the presumed set of causal links that appear in a form of independent variables. In other words, the patterns within the case study were analyzed and explained from a perspective of their existence and possible influences they generate.

External validity - this test deals with the problem of knowing whether a study's findings are generalizable beyond the immediate case study. Case studies rely on analytical generalization in which the investigator is striving to generalize a particular set of results to some broader theory (Yin 2003, 36).

The key component in findings which can be then generalized is replication logic. In this research work external validity is ensured by the possibility to replicate the theory and findings of the case study towards other similar fields, for instance markets of other CIS countries.

3.7.2 Reliability

Webb (2002, 148) defines reliability as the extent to which a scale of measurement delivers consistent results, where consistency may be applied to measurement of different groups/individuals or to measurement of the same groups/individuals at different times.

Reliability demonstrates that operations of a study such as data collection procedures can be repeated with the same results, where the main goal of reliability is to minimize the errors and biases in a study (Yin 2003, 34).

In order to overcome possible errors, a specific tactics such as case study protocol is recommended by Yin (2003, 38).

The protocol is a major way of increasing the reliability of case study research Yin (2003, 67). According to Yin (2002, 69), a case study protocol consists of an overview of the case study project, the field procedures, the case study questions, and a guide for case study report.

With an eye to the case study protocol, reliability of this research was developed with help of a comprehensive description of the research issues and objectives of the case study, appropriate processes and procedures, specific questions at the stage of collecting data and with use of several reviews of the project supervisors.

The aspects of consistency and repeatability are proved. If the next investigator follows the same procedures described in this research work, he could end up with quite similar findings and conclusions.

4 UKRAINE AS A TARGET MARKET

4.1 PESTLE

Organizational decisions and planning are contingent upon external factors (Cartwright 2002, 39). Businesses are decision-making units which develop strategies within an environment of change (Dransfield and Needham 2004, 444). There are quite many different aspects and elements involved in the constructing of business environments, where changes in political, economic, technological, social, environmental and legal surroundings are very much affecting their nature and generate various consequences.

In order to be in harmony with the environment and be able to response on changes in appropriate way, the companys should be ready to identify and audit such changes on a regular basis. According to Dransfield and Needham (2004, 444), readiness to auditing business environment enables the company to be more proactive (to shape changes) rather than reactive (to respond) to changes.

PESTEL analysis is one of the marketing concepts in which the key components are originally referred to as PEST. Such analysis are mainly standing for auditing Political, Economic, Social and Technological factors and used as one of the common techniques to audit environments. Additional factors such as Legal and Environmental were added later (Cartwright 2002, 39). The whole set of the PESTLE external factors influence the direction that the organization can choose, and studies environmental changes which may affect the businesses. PESTEL technique is one of the studies where changes are discovered with the use of different published and statistic sources, government surveys and other primary analysis.

4.1.1 Political

The main purpose in auditing political environmental is to determine to which extend government may influence the economy or a certain industry.

Ukraine is a republic which has a status of a sovereign, democratic, social and legal state. The country is ruled in accordance with the constitution that was originally adopted in 1996. Historically, Ukraine declared its complete independency from the Soviet Union in 1991. The main powers in the governing country are divided into three brunches: the legislative (Verkhovna Rada or Parliament), the executive (the President) and the judicial (the Supreme Court).

The Ukrainian political system consists of President, elected by the majority of population and single-chamber Parliament or Verkhovnajia Rada, which consists of 450 members. The president is the chief of the state who holds the constitutional right to nominate the defense and foreign ministers, and the head of the security service. The Prime Minister is nominated by the President based on recommendation of the party or coalition of parties that holds a majority places in the Verkhovna Rada (Parliament). The President has rights to veto legislation and ability to terminate the cabinet decrees. The constitutional laws are an exception.

Despite the fact that significant part of the population, especially in Eastern part of Ukraine speaks Russian, the country has only one official language which is Ukrainian. In some Eastern regions of the country, Russian language was permitted as the local official language.

The current Parliament of Ukraine consists of five major party factions and the group of non-affiliated People's Deputies. The biggest faction is the Party of Regions, which consists of 208 Deputies and is considered as the pro-Presidential party (official web portal of Verkhovnajia Rada of Ukraine).

In overall, political situation in Ukraine can be determined as stable, but only in the perception of current government and leading politicians. At the moment, such stability is mainly ensured by consolidation of the levers of power in the hands of the President Viktor Yanukovich and the dominance of the Party of Regions which holds majority places in the Parliament. Practically, almost all fundamental decisions regarding the government policies are usually made without taking into account opinions of the opposition.

Presidential election in January 2010 has been recognized by many international organizations such as election of high quality with significant progress over

previous elections, and as election that matched with most of OSCE (Organization for security and Co-operation in Europe) and the Council of Europe commitments.

According to foreign and domestic observers, the election 2010 demonstrated respect for civil and political rights, and offered genuine choice between candidates representing diverse political views. However, the legal framework remained unclear and incomplete, and was the subject of permanent discussions.

Although that presidential election 2010 was assessed as free and fair, all the following processes such as nomination of ministers and other high-level governmental positions have been implemented in favor of interests of certain business clans and different influential pro-President organizations. After elections, the new Government received much more ministerial seats for representatives of the pro-President group which is known as “the Family”.

For instance, after election the Prime Minister Mykola Azarov remained at his position, but the role of the Prime Minister’s duties has been significantly diminished by the appointment of the first deputy prime minister Serhiy Arbuzov, which in fact is the member of “the Family”. With use of such strategy, “the Family” has significantly strengthened its control over the main levers such as cash flows, force ministries and different Governmental institutions which play a key role and importance in preparing a solid and secure base for the next presidential elections in 2015.

Another example of granting the privileges in favor of “the Family” members to almost fully control certain economic sectors in Ukraine was lobbying the interests of Akhmetov’s group in the energy sectors. Akhmetov had very strong alliance with the President Viktor Yanukovich over the past decade, and the value of Akhmetov’s energy company DTEK continues to increase with rising demand. According to Forbes, Rinat Akhmetov is the richest businessman in Ukraine and he holds position 47 in the list of the World’s billionaires (www.forbes.com).

The biggest problem of the Ukrainian political society is the high degree of corruption at all levels of government and public institutions, starting from the highest-level of public officials. According to European Centre for Anti-Corruption and State-Building, Ukraine is a country with wide scale and

systematic corruption which makes crucial influence on the economic, political, social and other spheres of public life (Anna Yemelianova 2010).

A good example of political chaos in Ukraine was parliamentary election 2012. This election was characterized by widespread violations of democratic norms, which were accompanied by abuse of state administrative resources, numerous of provocations, intimidation of the opposition and independent media.

The notion of bribery is perceived by many Ukrainians as quite normal form of social behavior and as an integral part of their everyday life. Corruption is very widely-spread in different fields of the society, and bribery is a very common subject in the spheres such as medical, education, public tenders, law-enforcement, different permit systems organizations, courts and justice.

Corruption in Ukraine has reached a level that it is often described by Ukrainian and Western observers as a direct threat to the country's democratic development and economic prosperity (Anna Yemelianova 2010).

Starting from 1995, every new government has mentioned in its election program and commitments as a priority to fight with corruption, and after almost 18 years, the results achieved in this direction are very poor and unreliable.

In terms of foreign relations, Ukraine maintains peaceful and constructive relation with all of its neighbors. Historically and geographically, Ukraine has very close relations with Russia and Poland. After Ukrainian government has declared its course towards Euro-Atlantic integration, relations with Russia became more complicated. The main reasons for escalation of the relations with Russia were conflicts in foreign policy priorities and issues related to the aspects of energy dependence, payment arrears and foreign policy objectives.

Ukraine is included in the European Neighborhood Policy, has signed The European Union's Partnership and Cooperation Agreement, and is still in the process of negotiations of the agreement for a free trade with European Union. Country is the part of the North Atlantic Cooperation Council and Organization for Security and Cooperation. Also, Ukraine is a member of the International

Monetary Fund, World Bank, European Bank of Reconstruction and Development, and since 2008 is a member of World Trade Organization (WTO).

In a frame of the former Soviet Union republics, Ukraine is a member of the Commonwealth of Independent States (CIS) and Georgia-Ukraine-Azerbaijan-Moldova (GUAM).

4.1.2 Economic

Ukraine has a status of market economy granted by the EU and USA. In the early 90s, after collapse of the Soviet Union system, the country has faced a very sharp decline in all segments of the country's economy. In the beginning of the 21st century, economic situation in Ukraine has shown some positive trends towards macroeconomic characteristics and stability in terms of economic development. The hyperinflation of the post-Soviet era gone, macroeconomic characteristic of the country became steadier, and introduced in 1996 new Ukrainian currency hryvna remained relatively stable.

Growth Rate of GDP:

According to the State Statistics Committee of Ukraine, starting from the second half of 2012, economic development of Ukraine has entered into a certain stage of economic recession. Such slowdown and weak economic performance have been mainly caused by a significant budget shortfall in the second half of 2012.

The actual revenue of the central budget was at about 2.5 percent lower than an initial budget plan. Due to the fact that both inflation rate and the real GDP growth on which the budget was based were lower than forecasted, the changes in the beginning of 2013 for consumer prices and industrial production have had a negative trend towards a gradual decline. The main indicators of GDP changes in Ukraine are represented in the Figure 15.



FIGURE 15. Growth Rate of Ukrainian GDP 2010 - 2013 (State Statistics Committee of Ukraine 2013)

Inflation Rate:

Changes of the inflation rate in Ukraine between 2003 and 2013 are represented in the Figure 16. The higher rate of the inflation within this time period is observed in the year 2008, which was the year of the global financial crisis. The current inflation rate in Ukraine is relatively stable, meaning that country's economy has recovered from the economic recession and has positive cues for the economic development.



FIGURE 16. Inflation Rate of Ukraine 2003 – 2013 (State Statistics Committee of Ukraine)

Interest Rate:

The percent of interest rate between 2004 and 2012 is shown in the Figure 17, and refer to the National Bank of Ukraine benchmark interest rate. Due to the fact that since the end of 2007 inflation rate and credit growth have significantly raised, the National Bank of Ukraine has increased its discount rate from 10% to 12%. By raising interest rates, the National Bank of Ukraine tried to hold the rapid supply of money and credit growth.

This action has helped to make an impact on the interest rates of other commercial banks as well as the country's inflation level and exchange rate of the national currency.

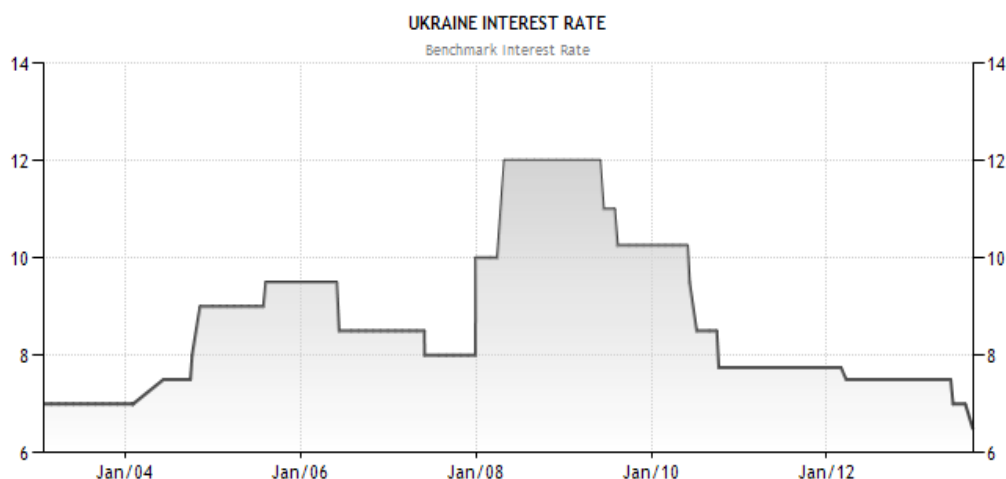


FIGURE 17. Interest Rate in Ukraine 2003 - 2013 (State Statistics Committee of Ukraine)

4.1.3 Social

Population and language:

Based on data from the State Statistics Committee of Ukraine, the country from the time of declaring its independence in 1990 has experienced a very significant decline in population. Figure 18 represents the change in population within the time period from 2003 to 2013.

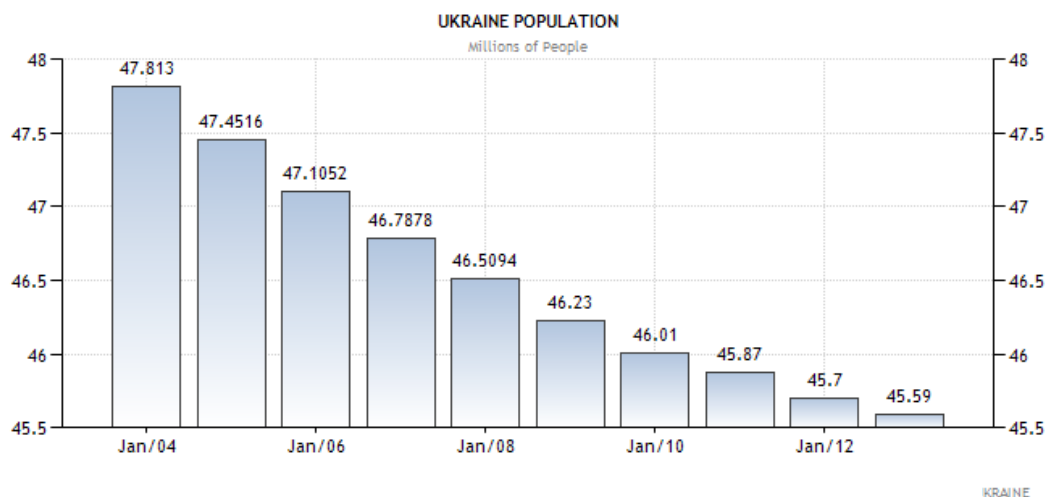


FIGURE 18. Population of Ukraine 2003 – 2013 (State Statistics Committee of Ukraine)

According to State Statistics Committee, the birth rate in Ukraine has been increasing since 2002 and in 2012 has reached the level of 11.4 per 1000 people. The death rate in 2012 was 14.5 per 1000 people, which accounts for the negative national growth of – 3.1 per 1000 people. The average life-expectancy at birth for both females and males in 2012 is measured to be 71.15. The average population density is 75.5 people per sq. km., 68.88% of the population are currently living in urban areas and 31.12% in rural.

Despite the fact that large proportion of the Ukrainian population, especially in the eastern regions of Ukraine speaks Russian, the country has only one official language which is Ukrainian. The official religion in Ukraine is Orthodox.

Households:

According to State Statistics Committee, the average size of a household in 2012 was 2.58 people. Distribution of the households by a number of persons is represented in the Figure 19. As of 2012, on average 90.9% of the population income was spent on goods and services, and 9.1% on non-consumption expenditures.

Distribution of number of persons in Ukraine Housholdes

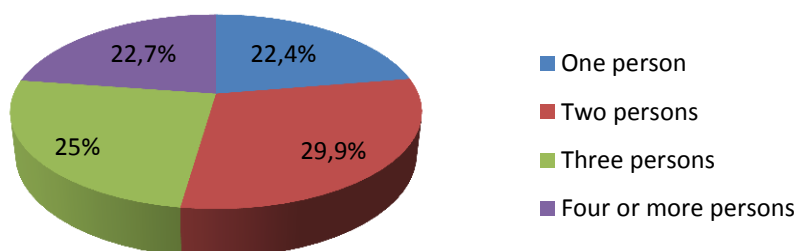


FIGURE 19. Households in Ukraine by number of persons 2012 (State Statistics Committee of Ukraine)

4.1.4 Technological factors

According to Goodrich (2008, 45) Ukraine has a well-developed scientific and industrial base. In a field of technologies, country demonstrates a high level of development in industrial sectors such as space research equipment, military equipment (tanks, transport aircrafts, surface-to-air missile complexes), optical equipment.

Based on information from GlobalSecurity.org, the military-industrial complex of Ukraine is the most advanced and developed branch of the state's sector of economy. Development of technologies in the field of military and armaments equipment is supported by 85 scientific organizations. The air and space division consists of 18 design bureaus and 64 enterprises. 15 research and development institutes, 40 design bureaus and 67 plants are involved in designing and building the ships and armaments technologies for the Ukrainian Navy. This complex is tasked to design and build heavy and missile cruisers, big antisubmarine warfare cruisers, and small antisubmarine warfare ships.

Military division for designing and production of the rocketry and missilery equipment (rockets, missiles, projectiles, and other munitions) consists of 6 design bureaus and 28 plants. In addition, the country has a certain scientific, technical and industrial potential for research, development and production of small arms and modern technical means of military communications and automated control systems.

Development of nanotechnologies is one of the high priority and strategic area of innovation activities in Ukraine. The focus towards this direction was mainly caused by the hope that with the help of nanotechnologies, the country can reduce its dependence on scarce, import replacing substances and materials, including strategically significant metal imports. In the field of developing nanotechnologies Ukrainian scientists have achieved significant results (Goodrich 2008, 45; Yegorov and Voitovich 33-34).

Development of agriculture, chemical and biotechnologies has also acquired the status of a high priority in Ukraine. Due to the fact that Ukraine is one of the biggest food producers among other CIS countries and has very significant potential in this sense, these areas became as of high importance for the technological development.

With an impact of IT megatrend, Ukraine has dramatically increased the internet usage, development of telecommunication and information technologies during the last decade. According to Internet World Stats, percent of population using internet in Ukraine within the time period between 2000 and 2012 has increased by 33.7%. The change in the number of internet users in Ukraine is represented in the Table 3.

TABLE 3. Percent of population using internet in Ukraine (Catalog Sources of World Development Indicators)

YEAR	USERS	POPULATION	% of POPULATION
2000	343.592	49.084.600	0.7%
2006	2.062.528	45.833.977	4.5%
2012	15.217.558	45.15.596	33.7%

Another aspect of the rapid development of IT-technology sector in Ukraine was caused by an impact of the past achievements in the development of IT dependent space and military industrial segments and technologies.

4.1.5 Legal factors

According to Floris Schuring's report (2012, 3), Ukraine has made great progress in terms of development of the business environment and improvement of its investment appeal. During the last decade, governmental regulations in a scope of real estate and foreign entities have been changed a lot. Today, foreign entities are allowed to acquire other than agricultural land real estate situated in Ukraine.

The Constitution of Ukraine guarantees the right to private ownership, which includes the right to own land. A new Land Code consistent with the Constitution was adopted on October 25, 2001. The Land Code provides for foreign ownership of non-agricultural land and clarifies the rights of foreign investors.

Ukraine's Law "On Ownership" recognizes private ownership and includes Ukrainian residents, foreign individuals, and foreign legal entities among those entities able to own property in Ukraine. It permits owners of property (including foreign investors and joint ventures) to use property for commercial purposes, to lease property, and to keep the revenues, profits, and production derived from its use.

In terms of intellectual property, in recent years Ukraine has made some progress towards harmonization of its legislation with EU and WTO standards. Legal protection of trademark is provided by the Ukrainian trademark law and international regulations in which Ukraine is also involved, and is granted to any mark regardless the jurisdiction of where the market was registered.

However, in 2011 Ukraine was listed on the Watch List Special 301 report. Key concerns cited in the report included weak enforcement, widespread retail piracy, the transshipment of pirated and counterfeit goods, Internet piracy, the continued government use of illegal software, and inefficiencies in the judicial system.

The recent changes in the law for participation in government procurements include the possibility for non-residents of Ukraine to participate in the public procurement procedures on a parity basis with Ukrainian residents. The Anti-Monopoly Committee of Ukraine has the power to review disputes that arise from the public procurement procedures through its Complaint Board.

The labor regulations in Ukraine refer to the act of regulating employment relations which is inherited from Soviet Union era adopted in 1971. In general, it does not meet the demands of the market economy. Employment can be formalized through an employment agreement or contract in written or verbally.

The concept of Corporate Social Responsibility is still something new for the mind of the Ukrainian consumers as well as for the majority of domestic producers and trading companies. In this sense, international companies are far ahead. In the consumers' perception, Corporate Social Responsibility initiatives are perceived as more as an exception rather than as the rule.

4.1.6 Environmental

Ukraine has significant environmental problems. One of the biggest is a contamination resulting from the Chernobyl nuclear power plant accident in 1986. The consequences of this accident are stunning; approximately one-tenth of Ukraine's land area was affected by the radiation. Through the consumption of food, about one million of people were exposed to unsafe levels of radiation. Approximately 3.5 million hectares of agricultural land and 1.5 million hectares of forest were also contaminated by the radiation.

According to United Nations Scientific Committee on the Effects of Atomic Radiation report 2008, the estimated thyroid and effective doses to the inhabitants of Belarus, the Russian Federation and Ukraine have been updated towards huge expansion from five million to about one hundred million people, and the estimated to about 500 million inhabitants of most other European countries. Even though that in 2000 the Chernobyl Nuclear Power Plant was permanently closed, the accident had generated a huge negative social impact. As of 2007, approximately 5.5% of the entire population of Ukraine has the status of victims of the accident in Chernobyl.

Another significant environmental problem in Ukraine is the industrial and other sources pollutions. The country has a lot of heavy industry facilities with relatively old production technologies which poses a serious threat to the environment. Ukraine releases very high quantities of heavy metal, organic

compounds, oil-related pollutants and polluted water directly to the Black and Azov seas. As a result, the pollution of the nation's water has resulted in large-scale elimination of the fish population, especially in the Sea of Azov. In many industrial areas, the water supply contains toxic industrial chemicals, which in some cases exceeds the safety limits in many times.

Air pollution is also one of the biggest environmental problems in the country. As of 1992, Ukraine had the seventh-highest position in the world for the emission of industrial carbon dioxide. According to Greenhouse Gas Emissions statistic data, as of 1992 the carbon dioxide emission produced by Ukraine was 716.361 million Gigagrams, and dropped down to 325,899 Gigagrams in 2008.

The country is interested in cooperating on environmental issues. Ukrainian government makes a lot of efforts towards improving environment policies, but in majority cases the main and biggest obstacle for the proper development and implementation of such programs is the lack of financial resources.

4.2 Dental business segment of Ukraine

Dental segment market conditions:

Since Ukraine has got its independence in 1991, country has started to develop a market economy, but strong economic growth began only in 2001. The country is actively continuing the process of privatization, creating more favorable conditions for investors, liberalizing market relations and standards of Ukrainian legislation towards European Union laws and regulations.

Development of the dental market in Ukraine was inseparably linked with the growth of economy, improving material conditions of the citizens and with creation of favorable conditions for the development of dentistry in the country by the state.

One of the good step forward examples towards reformation of this business segment is a state project entitled "Programme for the prevention and treatment of dental diseases from 2002 till 2007". Decree of the President of Ukraine № 475/2002, May 21st, 2002.

In recent years, due to the impact of economic crisis, the industry has shown a very significant reduction and decline in demand in purchasing new dental equipment. Such slowdown was observed during the time period 2009-2010, where the pace of development in comparison with previous years has dropped from 20-60% to 7, 3% per year.

Since 2011, the point of negative indicators was shifted towards positive and the dental market has shown a sign of a gradual recovery. Despite the fact that private dental market sector of Ukraine is still under the process of formation, it can be characterized as the highly fragmented and segmented market. Some acceleration of the market growth was observed in the first half of 2012, over 10% in comparison with the first half of 2011, and this gives a good reason to believe that market began to recover and there are prerequisites for optimistic forecasts. The following Figure 20 represents the market dynamics on the dental services between years 2006 – 2012.

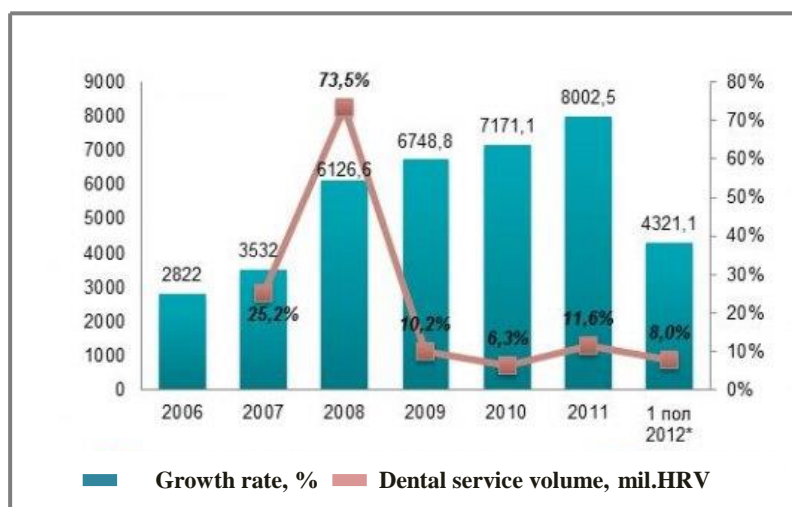


FIGURE 20. Volume of dental service market, Ukraine 2006-2012 (Pro-Consulting State Statistics Committee)

Currently, the market of dental services in the whole Ukraine and Kiev in particular consists of three types of health care facilities that provide premium dental services: single dental clinics, network of dental clinics, health centers and clinics which in addition to dental services provide others medical services. The most common forms are single dental clinics and private dental cabinets, which

occupy $\frac{3}{4}$ share of the market. The market share of the dental health services among other medical services is shown in the Figure 21.

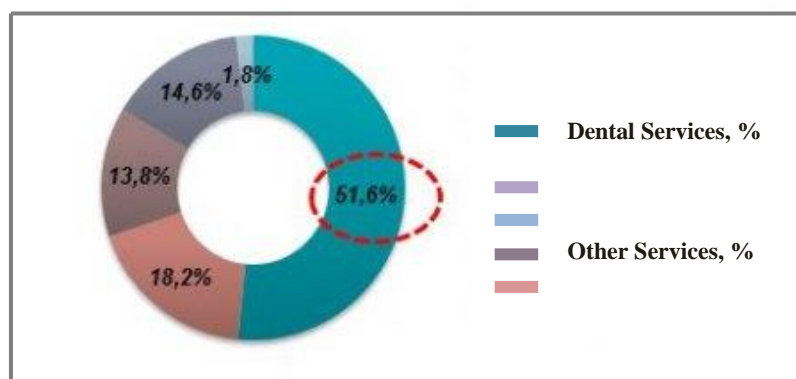


FIGURE 21. Market share of dental health services in comparison with other medical services in 2011, Ukraine (Pro-Consulting)

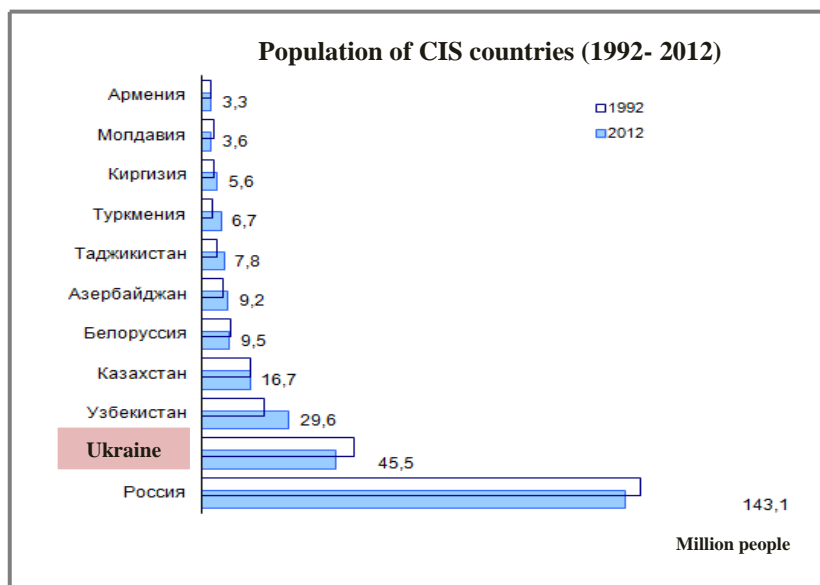
According to Pro-Consulting data, the market for dental services in 2011 is concentrated mainly in Kiev (64.1%), Odessa (9.6%), Dnepropetrovsk (7.8%), Crimea (5.4%), Kharkov (5.3%), and Lvov (4.9%). Development of the dental market segment was also observed in many other cities and regions of Ukraine. In particular, significant number of operators entered the dental market services segment in the southern regions of the country.

Despite a large number of the dental service providers, the forecast for the growth of this business segment is very positive. The demand for dental services is constant and market trend shows that today customers are more oriented towards quality, and not only price. Today people are more attentive to their health and they give their preference for quality instead of cheapness.

4.2.1 Market potential based on population

After Russia, Ukraine has the second largest population in the CIS area with 45, 59 million inhabitants. Population of Ukraine in comparison with other CIS countries is represented in the Table 4.

TABLE 4. Population of Ukraine in comparison to other CIS countries 2012
(www.demoscope.ru)



After collapse of Soviet Union in 1991, the notion of Soviet Union system has disappeared from the map of Eastern Europe and was transformed into completely new concept with the name of the Commonwealth of Independent States (CIS). Geographically, Ukraine is located in the western part of the CIS area and has a few common borders with EU countries such as Poland, Hungary, Romania and Slovakia. Since the declaration of independence of Ukraine – 24th of August 1991 and the subsequent collapse of the Soviet Union, Ukraine has started to develop a market economy, but strong economic growth began only in 2001.

The country is actively continuing privatization processes, creation of favorable conditions for investors, liberalization of market relations, and standardization of the Ukrainian legislation to European Union laws, various reforms in taxation, education and medicine. In May 16th, 2008 Ukraine became the 152nd Member of the World Trade Organization (WTO). The results of accession process to the WTO have appeared in the form of reforming and changing the country's trade practices and in liberalization of the access to its domestic market for imported goods and services.

The low tariffs on the most imported goods were established, and low-to-zero tariffs on long list of products of the different industrial sectors were adopted.

Medical equipment was one of the industrial segments in the list of the products, which as a result of negotiations and signed commitments has received a zero tariff for the import. By joining the WTO, Ukraine has demonstrated its readiness for economic development throughout easier access to the trade for foreign businesses on its domestic market and more favorable conditions for the investors.

The aspects listed above have shown a positive tendency in terms of market attractiveness and new business opportunities for many foreign companies. By taking into account the market size of Ukraine and all recent changes in the trade policy regulations, trade in medical equipment sector became very attractive for many foreign medical equipment manufactures.

Development of the healthcare industry in Ukraine was inseparably linked with the growth of economy, improving financial conditions of the citizens, persuasion of better lifestyles and creation of favorable conditions for the development of this segment by the government. Dentistry is considered as the part of the healthcare industry which people uses in their everyday life, where the quality and reliability of the dental treatment services are very much depending on the quality of used materials and technical capabilities of the dental equipment.

4.1.3 Market potential based on demand

The dental market of Ukraine is very large. There are no accurate statistics or precise figures about the volume of the dental equipment traded on the Ukrainian market. The main reason for this is the large amount of uncontrollable imports and existence of broad hidden in shadow financial activities and bookkeeping's.

Significant part of the financial operations in Ukraine is going through of the record transactions where majority payments are usually made in cash. This aspect makes impossible to evaluate and collect exact and sufficient data on the real volume of the dental equipment market and its development in the state. The official figures provided by the Ukrainian State Statistics and Customs Committees show that almost 95% of the dental equipment and materials in the country are coming from foreign manufacturers and importers.

Recently, a large number of health cooperatives in the field of dentistry were set up, and many of them were quickly transformed into dental clinics. Development of the dental industry is tightly connected with the development of new technologies. In this sense domestic producers are way behind foreign manufactures with fewer opportunities to supply the same high quality products, because their production technologies are obsolete and require in complex and large-scale upgrade. This factor is one of the main reasons why foreign manufacturers have almost fully occupied the dental equipment market niche in Ukraine and became the main suppliers for the Ukrainian consumers.

The market needs and volume are very extensive. Majority of the dental equipment in public dental clinics is outdated and requires in replacement. Rapid growth and development of the private sector dentistry generates an additional demand for the high-quality dental equipment on the market. At the moment such demand can be mainly covered by foreign manufacturers, because domestic suppliers are not able to compete and provide the market with the same quality products.

4.1.4 Market potential based on quantity of market players

As was mentioned in the previous section, the Ukrainian market demand for the dental equipment is predominantly covered by the imports. Most of the Ukrainian health care system is still owned by the state, and is funded from the state and regional budgets. The reform towards health care insurance is still in the stage of its development and waiting for the gradual implementation in the near future. However, dentistry in Ukraine is one of the health care sectors that experiencing rapid changes towards privatization and expectations from this particular customer segment in terms of its potential are very high.

The main buyers of the dental equipment in Ukraine are private distributors, private and state clinics. Supply of imported dental equipment is mainly organized through dealers who already have their established sales networks and ability to identify potential buyers. There are more than 150 foreign manufacturers supply dental equipment and instruments to the market of Ukraine. Supply channels

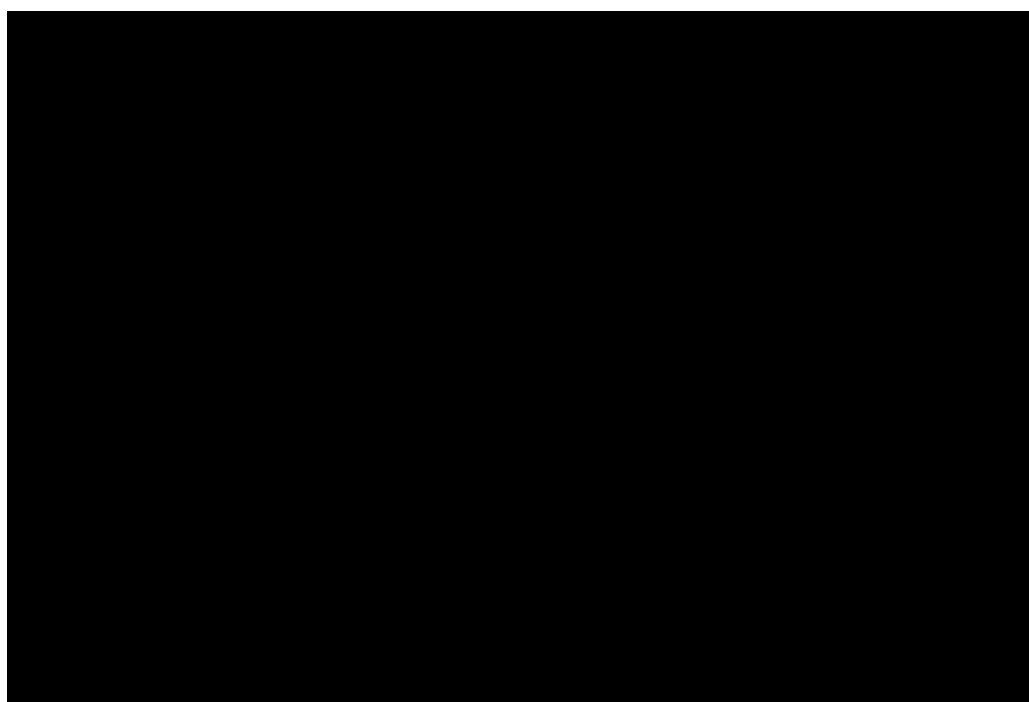
include both the official branches of the foreign manufacturers and their official dealers.

According to the latest official statistics data, there are approximately 22.000 dentists of various profiles working in Ukraine, 4.600 public hospitals and 5.000 private dental clinics and cabinets. 12 medical faculties of universities and medical academies are educating about 1.500 young dentists every year. Unofficial sources are giving slightly different figures, and according to them the total number of the dentist in Ukraine is counting up to 27.000.

4.1.5 Market potential based on quantity of imported equipment

Based on data acquired form the State Customs Committee of Ukraine, the total quantity of the dental and X-Ray equipment imported to the territory of Ukraine in 2012 was [REDACTED]. The following Table 5 represents official figures of the imported by different market players' equipment, which during the process of its customs clearance has been declared as the dental and X-Ray equipment.

TABLE 5. Dental and X-Ray equipment imported to Ukraine in 2012 (State Customs Committee of Ukraine)

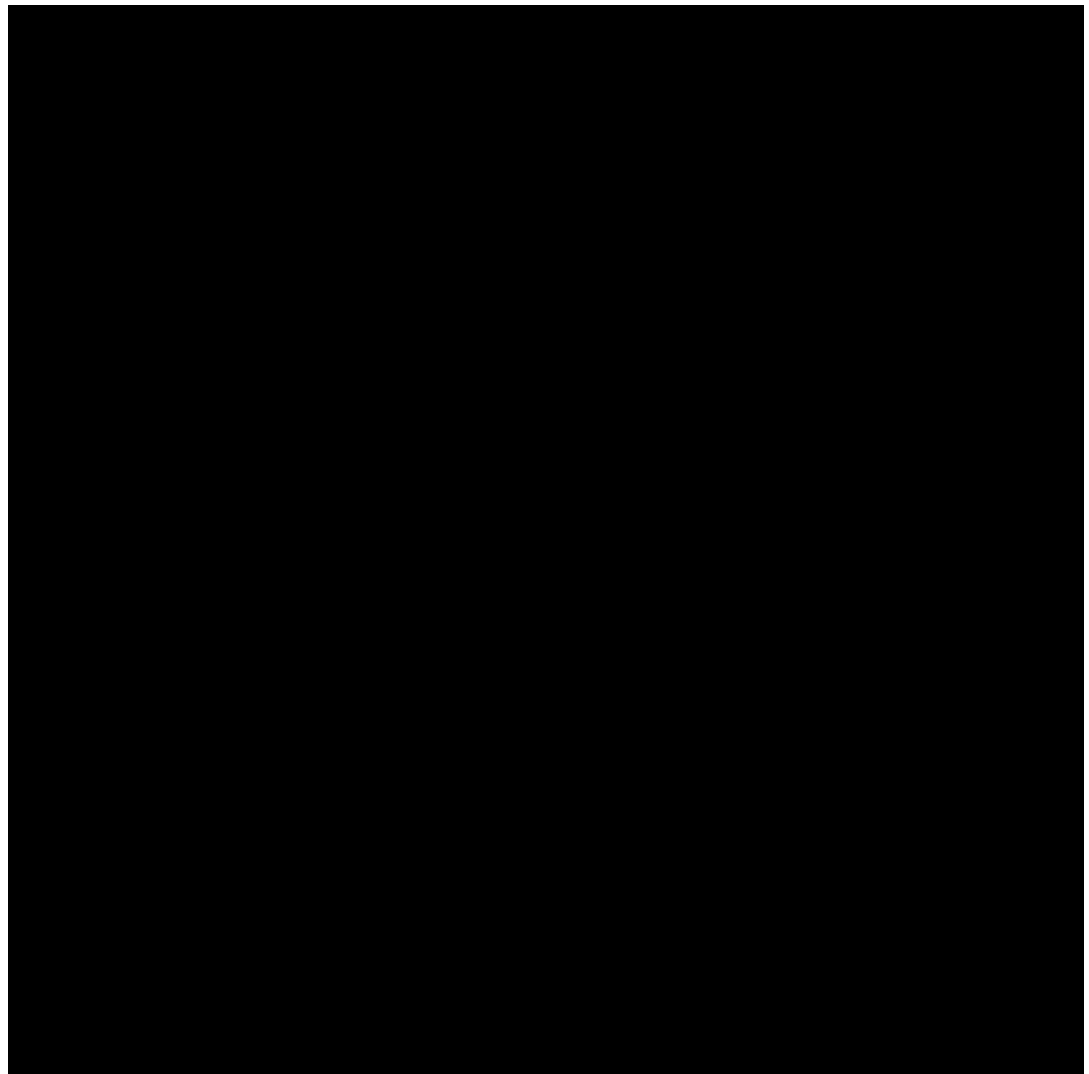


4.2.2 Competitor analysis

The data on the key players in the dental care and X-Ray equipment segment in Ukraine was collected from the exhibitions catalogues, different dental events and dental trade shows, current Planmeca distributor and its sub dealers in Ukraine, and based on the data obtained from the National Association of the dentists in Ukraine.

In general, there are approximately 250 companies selling dental equipment and related to the dental business segment products on the market of Ukraine. More than 20 of them are large organization with well-established sales and distribution network, and head offices in the biggest cities of Ukraine. The list of the main Planmeca Oy competitors by the product group is represented in the Table 6.

TABLE 6. Competitors of Planmeca Oy by the product group in Ukraine

The table content is completely redacted, appearing as a solid black rectangle. No data is visible.

4.2.3 Regulation on dental care and X-Ray equipment import in Ukraine

According to requirements of Decree № 1497 of Cabinet Ministers of Ukraine dated 09.11.2004, importation of medical devices, their implementation and practical usage in the territory of Ukraine is possible only after their state registration. The state registration of medical devices is and an obligatory requirement which is performed by centralized Department of regulatory policy of medical products and goods of the healthcare area of Ministry of Health of Ukraine (Resolution № 1497, 09.11.2004, Order of Cabinet of Ministers № 393).

Despite the fact that currently Ukraine is trying to gain EU membership, regulations towards accepting the EU standards are still in the process of adaptation and harmonization. The process of obtaining the state registration certificate for medical devices consists of all necessary tests and analysis performed by various expert institutions. The registration is performed on the basis of the application form and related documents which should be submitted by the applicant who is responsible for production, safety, quality and effectiveness of the medical devices. Applicant can be any legal entity, resident or non-resident of Ukraine or the manufacturer itself. In most cases, the process of applying and performing all related work for obtaining the state registration certificated is handled by a third party (dealer, agent, intermediary), based on the official authorization from the manufacturer.

The Ministry of Health shall consider all the materials in the manner prescribed by the protocol within the time period of no longer than 90 days. After all submitted documents were reviewed; the following step will be performed by the expert institutions, where they make different tests and examinations of the device in order to release technical report, opinions and conclusions to the applicant and the Ministry of Health. Based on the opinion of experts, the Ministry of Health appoints testing of the medical device. The time for testing is not included in the time of examination, and mainly depends on issues such as potential risks, safety class, and availability of the clinical protocols. Depending on drawn conclusion from the testing and recommendations of the expert organizations, the Ministry of Health decides either to register medical device or refuse in registration.

In case if decision was positive, the medical device will be included in the Ministry of Health's State Register of Medical Equipment and Medical Devices, and Certificate of Registration will be issued to the applicant. The certificate is valid for 5 years, and can be renewed if application for the renewal is submitted not later than 90 days before the date of expiry.

The Certificate of registration can include several medical devices and several manufacturers. Medical devices must have same or similar method of action and should be manufactured under the same quality management system. In the Certificate of Registration they will be listed in the Attachment 1, and all accessories, spare parts, disposables and other related and supplied with medical device product will be listed in the Attachment 2. In case if applicant wishes to apply for several manufacturers in a single certificate, relation between these manufacturers should be explained by relevant documents (contracts, license agreements, etc.).

The list of necessary documents required for medical devices registration in Ukraine is represented in the Table 7. If English is not an original language of the applicant, all relevant documents should be submitted to the registration bodies with notarially approved (Apostil) English translation.

TABLE 7. Required documents for medical device registration in Ukraine (ecomед.com.ua)

1. The Power of Attorney that authorizes intermediary to register the product on behalf of the manufacturer, and receive the registration certificate.
2. Instructions for use of medical device
3. Certificate of origin
4. Certificate of conformity of the medical device to quality and health safety requirements EC 93/42 Directive
5. All available ISO certificates
6. Materials on technical safety
7. Free sale certificate
8. Declaration on safety class materials
9. Materials on pre-clinical and clinical expertise
10. Product catalogs
11. Sample of labeling
12. Extract from the company trade register

From the author's experience, obtaining Certificate of Registration for medical device in Ukraine is not an easy task. There are quite many hidden pitfalls, bureaucratic and cultural surprises as well as unexplained members involved in the process of registration. Even though that medical device has all valid certificates and relevant quality standards approved by EU certification bodies, sometimes the best approach for getting "positive decision", avoid uncertainties and achieve desirable results is to find the "the Right" person who has "the Right" connections in an appropriate organization.

4.2.4 Porter's Five Forces analysis of dental equipment market

According to Warren J. (2013, 266), one of the useful ways of gaining insight into the nature of competition is through industry analysis. In any industry, competition works to drive down the rate of return on invested capital towards the rate would be earned in the economist's perfectly competitive industry.

One of the common tools to analyze and identify the main forces influencing competition in an industry is Porter's Five forces model. This method allows the companies to analyze its awareness towards different competitive forces, helps to identify its position within an industry on the market, and recognize niches of the industry which are less vulnerable to attack. The five forces influencing competition in an industry are represented in the Figure 22.

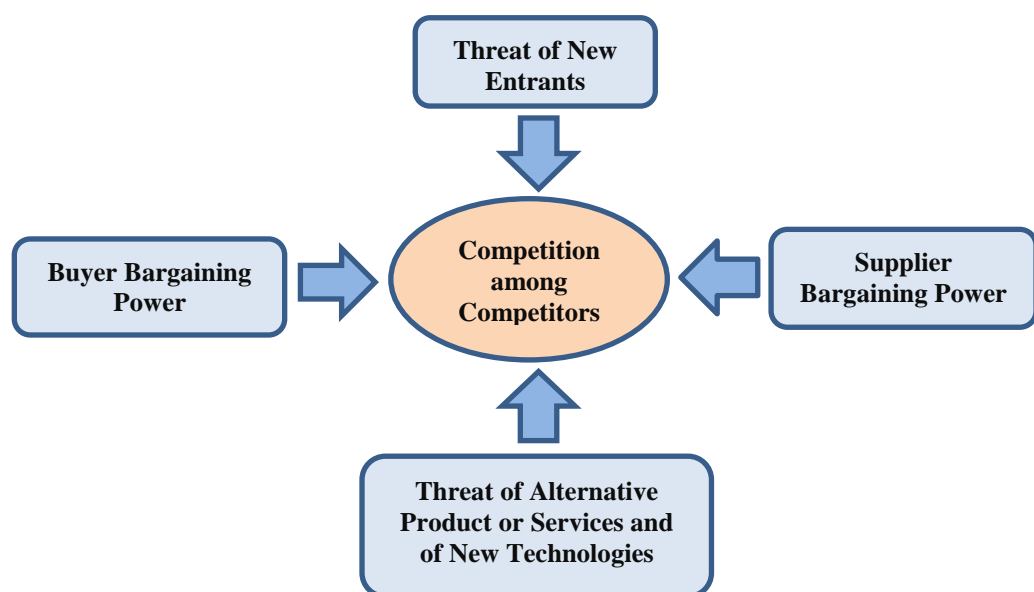


FIGURE 22. Forces Influencing Competition in an industry (adapted from Warren J. Keegan 2013, 267)

Threat of new Entrants: **STRONG**

According to Warren J. (2013, 267), new entrants to an industry bring new capacity, a desire to gain market share together with position, and new approaches to serving customers. Such circumstances are very often accompanied by a major commitment of resources, where new players push prices down and squeeze their margins which causes reducing of an industry profitability.

The extent to which the new entrants may threaten an industry depends on various sources of barriers that are present or absent on the market. Porter (2008) describes these major barriers as economies of sales, product differentiation, capital requirements, one-time switching costs, an access to distribution channels, government policy, cost advantages, and expected competitor's response.

The threat of entry into the dental equipment market segment of Ukraine can be determined as **STRONG**. There quite many reasons for giving such rate. One of the biggest barriers refers to the governmental regulatory policy on the import of medical equipment to Ukraine. The dental and X-Ray devices refer to the category of potentially high-risk equipment. To be able to sell and market such equipment on the market of Ukraine, any manufacturer must go through a very complex and relatively costly product certification procedure. Typically such processes are very time consuming, because they involve various testing and examination requirements at different levels of the governmental certification bodies. In some instances, in order to fulfill such requirements, the manufacturer should maintain its R&D funding and make additional adjustments or changes in the product.

Other barriers for entering the dental equipment business segment in Ukraine are costly capital investments, specificity in product distribution, brand identity and advanced technology. Due to the fact that the dental equipment industrial segment is largely depending on development and implementation of the new and advanced technologies, this aspect is playing significant role and appears for many companies as a very serious barrier for entering the market. For instance, product categories such as 2D, 3D X-Rays and CBCT are very tightly connected with advanced technologies, where innovations are one of the key components of the product potential on the market. In addition, development of the new

technologies and their implementation into the product entails huge capital investments both in R&D and production.

Even though that the dental equipment market segment in Ukraine is still under its development, some larger dental equipment companies have already managed to build a very strong brand loyalty to their products. Such loyalty comes from different directions, in some cases from the company's track record with quality or customer service, and in other cases from offerings innovative technologies. Recognition of the brand reputation in a positive way generates more opportunities for the existing companies and less opportunity for those who want to enter the market.

Product distribution in the dental equipment business segment is also very specific. In most of the cases sales processes involve direct interaction and strong relationships between sales personnel and end users. Many companies have already well-established channels of product distribution and have their own way in approaching customers. This means that at the beginning the newcomers will most probably face various barriers in selling their products immediately, because imitation of the competitors' approaches is a time consuming process. The time required increasing switching costs to the end-users and additional risks in terms of their readiness to build new relationship with another company, as well as make them loyal to the product from different manufacturer.

Due to the fact that the dental equipment cluster is very intensive segment of the medical equipment industry in terms of knowledge and high technologies, in order to appear on the market, the startup companies should be ready to invest large amounts of capital.

The threat of entry of the dental equipment market in Ukraine is strong, because there are numerous and various barriers exist for the entry. Even though that some of these barriers can be overcome with fewer efforts, majority barriers for entry the dental equipment market remain strong and formidable.

Threat of alternative products: **STRONG**

In order for a product be a viable alternative, the product should perform and fulfill the same functions as the product which it is substituting. According to Warren J. (2013, 268), the availability of substitute products places limits on the prices market leaders can charge in an industry, where high level of prices may induce buyers to switch to the substitute.

The threat of alternative products in the dental equipment industry is very strong. The substitute products exist for some types of the dental equipment products, but mainly for the short-term treatments. For instance, the dentists may choose to treat a disease condition without using dental device by substituting some treatment procedures with different pharmaceutical solutions. However, in the dental practice majority cases, such solutions can be only used in some intermediate stages and the processes of the whole dental treatment procedure.

For products and technologies which refer to the dental imaging, the threat of substitute products is even stronger. Due to the fact that dental imaging devices consist of many technologically advanced and very specific features which are relatively unique and developed with only purpose to diagnose the causes of the problem in the dental area, these products cannot be substitute by any other products. In order to find the source of the problem and plan an appropriate medical treatment, the dentist needs to obtain a very proper and precise diagnostic. In most of the cases such diagnostics can be only performed with use of very specific devices which have very specific features.

Buyer Bargaining Power: **MEDIUM**

The buyers of the dental equipment are usually hospitals, universities, centers of diagnostics of the dental diseases, and the private dental clinics. Within the last decade, the purchasing dental equipment landscape has changed significantly, and in recent years has become a strong and positive trend for a gradual continuous growth. Such tendency can be explained by several reasons. The power on buying in the dental equipment industry is becoming more and more consolidated, the technology and its derivatives gets more referrals and use in the dentistry, the

government support and non-governmental insurers reimbursement policies are more involved and evolving.

The dentists and private clinics have also very significant influence on the product and brands they use. As the dental care costs rise, the more dental care organizations are forced to purchase more advanced and modern equipment, which will help them to find its own niche on the market and remain competitive. With an impact of different megatrends, the dental equipment industry becomes at some extent more global. Sharing information on the product features, quality, prices, availability of the product services, and the treatment practices with use of advanced technologies is much easier than ever before.

However, despite that purchasing power in the dental equipment industry is growing, there are quite many factors that are considered as a little threat. The majority of the public dental care programs supported by the government as well as the non-governmental insurers are very much low price oriented. The other aspects are barriers to entry, highly bureaucratic and corrupted approach in the governmental tenders and reimbursement programs.

Supplier Bargaining Power: **STRONG**

If suppliers have enough leverage over industry firms, they can raise prices high enough to significantly influence profitability of the industry (Warren J. 2013, 269). There are two main reasons where suppliers' power is considered as strong: switching costs and forward integration. Switching costs are the costs to a dental device manufacturer that are incurred when it switches from one supplier to another. If costs of moving are low, than switching costs are also low and vice versa. The concept of forward integration refers to the circumstances when a manufacturer decides to become a direct competitor in the market that it serves.

The primary suppliers in the dental equipment industry are companies and manufacturers which supply component and the dental equipment itself. In terms of switching costs and forward integration, they usually do not pose much threat to the industry. There are hundreds of components which companies supply to the dental equipment industry. Usually, it's quite difficult to classify them as a group, but for some types of components there are multiple sources from where they can

be supplied, and these multiple suppliers do not pose very much threat to the industry.

Suppliers who produce a very complex products and critical components pose a threat, because of the high switching costs and potential forward integration. When manufacturers produce one of the most complex elements in the dental equipment product, they usually understand possible barriers and regulatory pitfalls to get new products approved, so if they wish to challenge the established companies they have strong basis and all the reasons to forward integration.

The dental equipment is a complex and complicated product. It consists of various kinds of components such as plastic, rubber, electronics, iron, fastening elements, and many other materials. The dental equipment industry is highly affected by the upstream industries and very much depending on different technical and product developments. Due to the complexity of the products, the dental equipment industry demands for variety of numerous complex components and materials. Even though that the primary industries are highly connected with the processing of raw materials, the bargaining space with the supplying industries is at some extend limited.

There is certain advantage for some dental equipment suppliers on the market. Such advantage refers to the factors such as large size with relatively few in number, and to some of the product groups that are not threatened by the alternative products. These companies have an ability to offer to their customers' highly differentiated products as well as strong financial capacity to carry switching costs. However, the force of the suppliers in the dental equipment industry of Ukraine is medium, because majority of the contract with manufacturers and suppliers are long-term and exclusive. When power of the suppliers is strong, contracts are typically short-term and non-exclusive.

Rivalry among competitors: **STRONG**

There are many companies in the dental equipment industry that compete with each other for the same market head to head. They do many actions to improve

their position on the market and gain advantage over each other. Such actions are obvious, and can be easily recognized from very tough competition in pricing, product positioning, and its differentiation. Circumstances that drive prices and consequently profitability down create instability and possible negative influences on the attractiveness of the industry.

Despite the fact that Ukrainian market has relatively low growth, the rivalry appears to remain strong. An explanation to this is a very tough price competition on the market. Companies are trying to retain as much businesses as they can, and in the global economic downturn trying to keep all possible opportunities on each and every market. Another aspect is that reformation of the Ukrainian health care system is facing serious problems. A high degree of economic uncertainties together with an ambiguity of the health care system reform to be implemented in the near future is generating situation where many companies do not know of how the product regulations and approvals will be affected, how the policies will shape reimbursement programs, and how finally all of these aspects will influence their pricing policy on the market.

Overall, this force is quite strong, because currently there is a certain degree of the confusion exists in the industry from the strategic perspective. It's almost impossible to predict of what the dental equipment industry will look like in the future and what will be the companys' reaction on the changing dynamics within it.

The dental equipment industry is very sensitive to several external forces that exert a significant effect on the industry. The most recognizable are government involvement through different regulatory bodies and reimbursement policies, and technological changes. These forces generate a huge impact towards various barriers for the entry, product price policies, and finally costs of the dental treatment services. In the dental equipment industry of Ukraine, all of the forces are strong or medium, meaning that this industry is difficult to enter and difficult to prosper. In order to gain sustained competitive advantage, companys' should be very well prepared in terms of their strategies, financial and technological capabilities, and should be ready to build their approaches within a frame which focuses on the long-term development perspective.

5 CASE DESCRIPTIONS

5.1 Case company analysis Planmeca Oy

The following chapter provides readers with general information about the case company, and major aspects relevant to the notion of Planmeca's marketing and distribution strategy towards different target markets.

5.1.1 General information

Company overview and history:

Planmeca Oy is a family owned medical device company, which designs, manufacturers and markets high-tech dental equipment for the dental and imaging markets worldwide. The company was founded in 1971 in Helsinki, Finland and during the past 40 years has grown into one of the leading companies in the dental field. Planmeca Oy has its main production unit in Finland, and principally operates in the markets of US, Japan, Australia, Asia and many other European countries. Production units of Planmeca Oy are represented in the Figure 23.

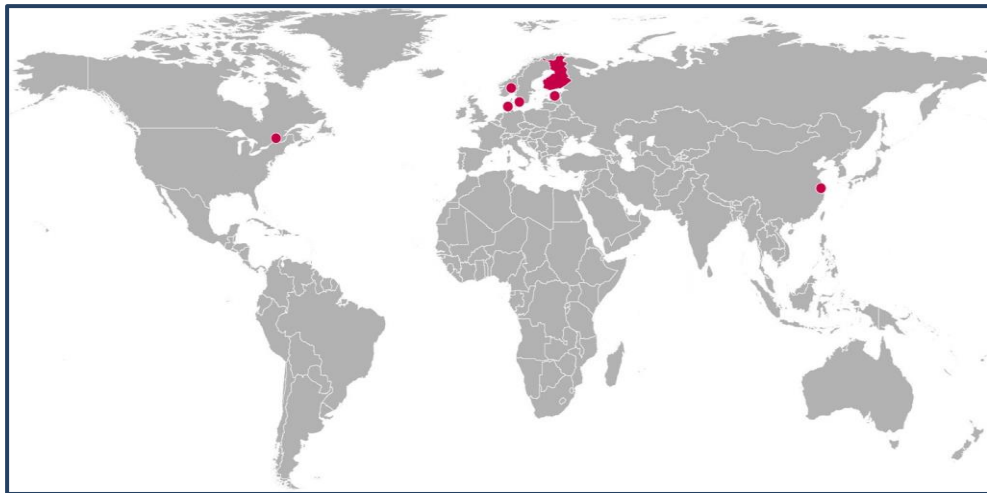


FIGURE 23. Planmeca Group manufacturing facilities (adapted from Planmeca Group presentation 2013)

The company's product lines are dental care units, panoramic and intraoral X-rays, digital 3D imaging products, patient chairs, digital imaging solutions and software application for dentists. The company also develops, manufactures, and

offers advanced imaging equipment and accessories for breast cancer screenings and diagnostics, orthopedic imaging equipment, dental hand instruments and their supplementary products, dental practice cabinetry solutions and sterilization centers, dental equipment installation and maintenance service.

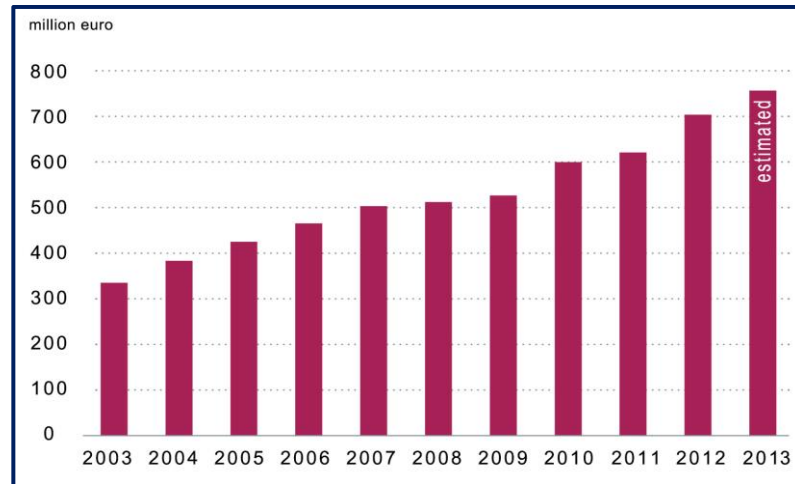


FIGURE 24. Planmeca Group Turnover (adapted from Planmeca Group presentation 2013)

The company sells its products over 120 countries across the world through more than 550 dealers and distributors' networks. Planmeca Oy is the largest privately owned company in the dental field and operates as a parent company of Planmeca Group with its headquarter in Helsinki, Finland. Figures such as yearly turnovers and quantity of a personnel currently employed in the company are represented in the Figure 24 and Figure 25.

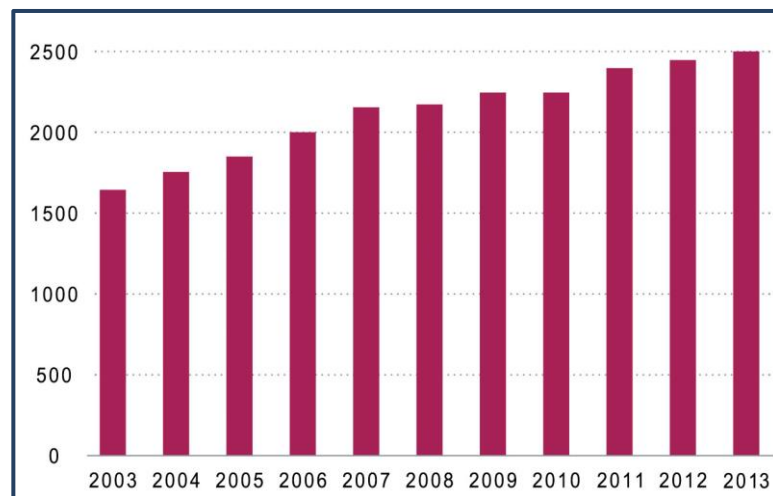


FIGURE 25. Planmeca Group Personnel (adapted from Planmeca Group presentation 2013)

5.1.2 Product groups

As was mentioned in the previous section, company has three main product divisions: Dental Care Unit division, X-Ray division and Digital division. The product range consists of wide range of different models in each product group. Divisions and range of the product models are represented in the Figure 28.

Dental care division is fully responsible for development and production of the product and components related to the dental care units and dental care treatment systems. X-Ray division is fully responsible for development and production of X-Ray product and components. Digital division is fully responsible for development of software and IT related solutions to all products manufactured by the company. The core and basis of the software is Romexis platform which then can be equipped with various modules for different dental care and treatment purposes.

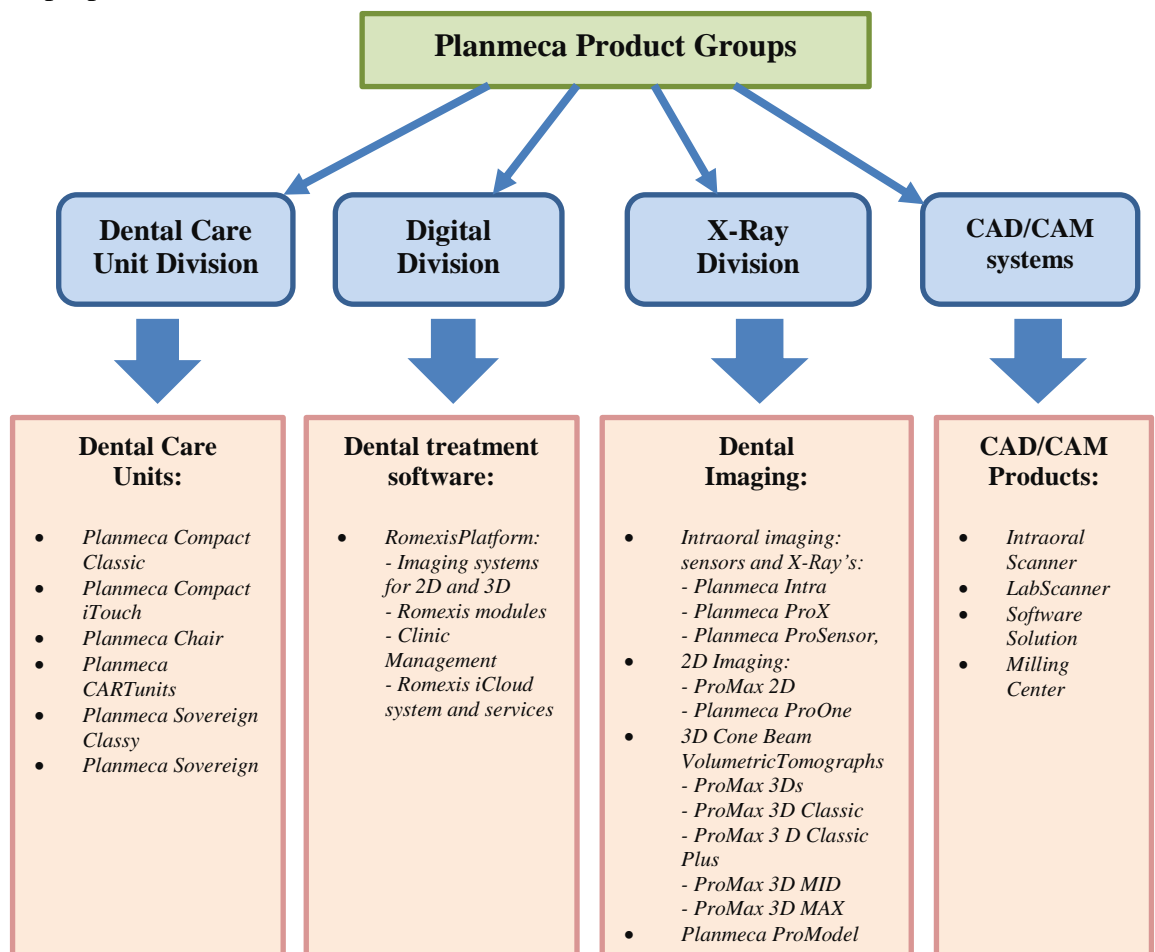


FIGURE 28. Product groups of Planmeca Oy (adapted from Planmeca 2013)

The core concept of the company's business policy is to offer customers full and complete high quality "All in one" dental treatment solutions that fulfill their needs and requirements. Such complete solutions maintained by an efficient combination of highly integrated into diagnostic tools advanced technologies, where the equipment share open interface and communicate with each other.

5.1.3 Target markets and Marketing strategy

Planmeca Oy has no fixed and officially defined statements such as mission, policy, strategy and so on. There are no written statements on strategy exist in the company, because in its perception they cannot be conceptualized on the fixed and permanent basis. There are few general guidelines on where company wants to be and how such targets can be achieved. The key component of the company's vision towards further development is the high degree of flexibility and readiness to quickly change its products, implement new ideas and if required change its direction towards market trends and demands.

The general mission is to be number one partner for customers, distributors and all company's employees. The general code is to be a leader in market share, technology and quality. The general vision is to develop products and technologies that genuinely bring superior feelings to the user in which they genuinely appreciate all critical points that are linked to their life and work that can be brought and implemented in the company's product. So, the general aim is to bring to the customers the most cost effective and complete range product solution that will be equipped by the absolutely unique technology which supplies benefits that are something totally above the competition.

The company's marketing strategy for handling different product groups in different markets in most cases is very unique. The core issues of such approach is always to listen to the customers, take into account the needs of a particular market, and fully utilize within a general limits the company's competences to maintain and implement such uniqueness. One of the key components which help to perform marketing strategy successfully and efficiently is flexibility. It doesn't mean that there are no rules or an established system exist in the company; it means that company wishes to reserve enough space to react quickly if customers

face challenges or problems, and to have the ability to very quickly implement improvements into the product.

Approaching markets in terms of partnership is also an open and flexible topic. The company's policy has no fixed rules or limitation in this sense. General policy is to have as many partners as market requires, and basic components in such requirements are usually type, size, geographical coverage, market specificity and availability of partners on the market. The key point of the distribution policy is to acquire very dedicated and committed long-term partners that are willing to get excited and enthusiastic in sharing company's business objectives and ready to build very transparent, trustful and effective cooperation.

The company has its global presence in many different markets worldwide. Some markets have more than ten distributors, some only one and on exclusive basis. For some big markets, especially if there many distributors, company may also establish its local support office. Establishment of such support offices are not to compete with the local distributors, it's mainly to provide support in sales development, help distributors to sell, help them to train and get trained, update information all the time, and secure them in the technical backup. The global Planmeca's existing distribution network is represented in the Figure 27.

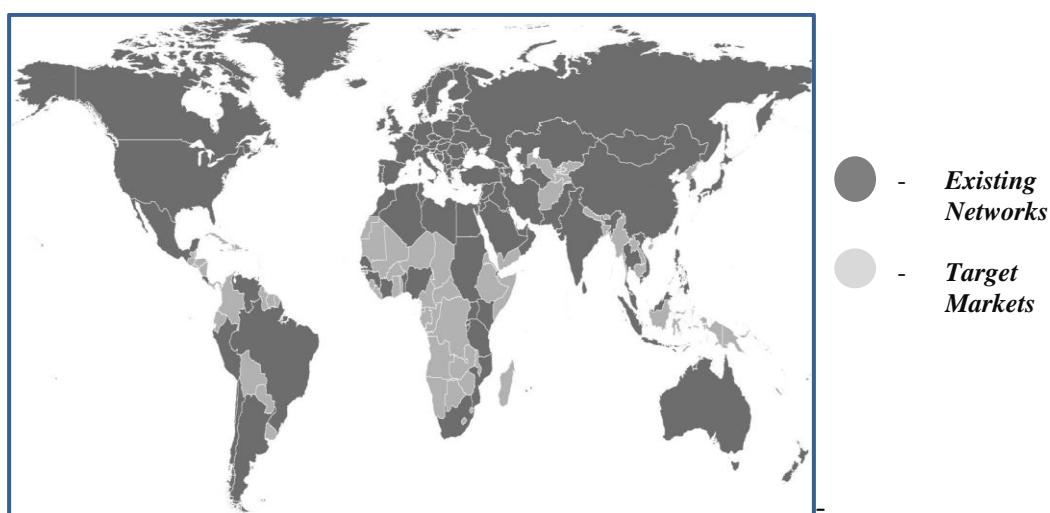


FIGURE 27. Planmeca Target Markets and Global Distribution Network (adapted from Planmeca Group presentation 2013)

From the cultural perspective, company believes in the true and transparent cooperation with all of its partners. The core concept of such approach is that company understands that local distributors are insiders of the culture, and that they have much better knowledge and experience of how different business objectives in their own markets can be performed and maintained in the most efficient and appropriate way.

The trust in cooperation is one of the key elements in the company's marketing strategy. In many cases, the company invests together with its local partners and openly shows what is the value of this cooperation has been generated. By building such link, partners are also very dedicated, even though that sometimes competitors are willing to catch them with the lower prices, they can't do this easily because company build a very special and unique relationships with its distributors.

One of the fundamental issues in the company's marketing strategy is to position its brand image in the Top-End category of the leading companies in innovations, new emerging technologies and quality. Every year company puts a lot of efforts and financial resources into R&D and dynamic upgrade of its internal organizational elements. As a privately owned, company has a possibility to keep all decision making processes in its own hands, and this allows the company to remain independent, flexible and quick to react to any changes on the markets.

Strategic direction of the company is mainly allocated in the frame of the long-term cooperation. Planmeca believes in B2B marketing, personalized customers, and personalized customer service. This helps to create a very big difference among many other competitors, where with such personalized approach the company is showing its commitment and then creates partnerships. Good examples of the long-term and successful cooperation that company nowadays uses as references are different university and governmental projects that have been implemented in different countries around the world within last two-three decades.

5.1.4 SWOT analysis of the company

In order to monitor factors that affect ability to earn profit, company should perform the overall evaluation of its strength, weaknesses, opportunities and threats (Kotler and Keller 2009, 88). One of the powerful techniques to monitor the internal and external environments is SWOT analysis. This approach categorizes strength and weaknesses in relation with internal environment, and opportunities with threats in relation with external environment. From the marketing point of view, SWOT is one of the powerful techniques that can help a company to decompose its sustainable competitiveness into components, and based on finding develop its competitive advantages, marketing opportunities and appropriate strategies for further development.

Strengths (S):

As was mentioned in the beginning of this case study, Planmeca Oy has already established very strong and efficient network of dealers and product distributors worldwide. Such international network of partners enables the company to acquire and distribute its product and resources effectively, gives wider opportunities for stable growth and helps the company to safe its position by diversification and balancing the risks from the possible negative effects in different regions.

Planmeca Oy is one of the biggest and well-known in terms of quality, advanced and innovation technologies company in the dental equipment business segment. Unlike many other competitors, company offers to its customers complete and at some extends customized product solutions. All the products are linked with each other, joining the same platform and easy to integrate. Although, the company manufacturers a very wide range of product divisions for variable customer groups and various dental treatment purposes, where equipment, hardware and software are conceptually developed with the possibility to be upgraded.

Planmeca Oy has penetrated into many stages of the dental equipment business segment, and has position itself in this industrial area as the trend-setting company for many other companies and its competitors. The company has very massive and well-structured in-house R&D department and has always put very large amounts of efforts and resources into development and integration of the latest innovative

technologies into all of its products. Advanced technologies, quality and innovations are the key concepts where company always wants to be proactive. In addition to this, Planmeca Oy has its own full-range highly automated manufacturing and assembling facilities which enables company to be flexible in the product adjustments and improvements, as well as to react quickly on any possible changes on the dental equipment market and this industrial segment.

As one of the biggest and leading dental equipment business operators, Planmeca Oy has managed to establish its brand loyalty in different countries worldwide at a very high level. Such advantage has been obtained through the company's history, product quality and uniqueness, and through spreading globally cooperation with the various leading research centers and university projects.

Weaknesses (W):

Due to the fact that the dental equipment are very complex products, the main and significant weaknesses can be allocated in the scope of serious technical failures, knowledge transfer, product trainings and education.

The technical failure is one of the factors which has significant and direct link to the company's brand image and reputation. If company loses its reputation because of the product technical failures in one of the markets, it can easily lose this particular market for a quite long period of time. If market is big, such circumstances may generate huge negative impacts and consequences for the company.

Due to the fact that Planmeca Oy is a pioneer in advanced dental technologies and innovative products, knowledge transfer, education and trainings are the key components that may weaken the company's position. The development and launching of the new products to the markets require in intensive trainings of sales and technical personal. Dealers, distributors and technicians are the key elements in delivering know-how to the end users. If knowledge on the new product has not been transferred to them in a proper and efficient way, they won't be able to sell the product effectively and consequently won't be able to provide the end users with qualified and prompt technical support.

Another factor which can be also considered as both strength and weakness depending on its interpretation is an absence of the products in a very low price level segment. The company has no product that can be offered to the low-price markets. Although, the cheapest model of for instance dental treatment unit from European point of view is relatively low, for some markets this price level is considered as the price of the medium and in some instances the top model of Planmeca competitors' product.

Opportunities (O):

Intensive growth of the emerging technologies in the dental business segment has forced many companies to reorient their “old” conceptual perception of the product towards this trend. Being always in the top-end group of manufacturers, who focuses on the product development and manufacturing processes through implementation of the latest and innovative technologies, Planmeca as the market leader has a lot of opportunities in this sense. The company has very well-established mechanism for development and utilization of the latest technologies in both manufacturing processes and in the product itself. All the processes are supported by a very strong in-house R&D team, huge financial resources, and very proactive company's management.

Another opportunity is that the penetration rates for some of the latest Planmeca's products and technologies are very high. In many markets, there are lots of customers who are currently adopting such products and technologies at the very beginning level. Markets are nowhere to saturate, and for some advanced products the company is allocated in the very top position among many other competitors. In addition, the company has very strong network and huge opportunities for the further expanse before markets are saturated. For many customers, Planmeca is preferred brand because of the quality, strong product range, and very advanced product and technological features.

The trend towards digitalization of the dental equipment industry is one of the global indicators that show direction of the company towards very high potential and strong opportunities. The business opportunities as a “payback” for the new coming and launched products through many years' systematic approach and

cooperation with different institutions, universities and many other worldwide projects. Even recession in some of the world markets can be at some extent considered as an additional opportunity for the company. When economic situation is stable, any company can succeed, but in struggling time the weaker competitors are slowly going out and stronger players are taking their place and the market share.

Threats (T):

One of the biggest and general threats is a possibility of the technological changes on an industrial level, which will lead to the obsolescence of the large part of the company's existing technologies and their utilization in the products. The dental equipment industry is very much depending and quite sensitive towards technological changes. In this sense, the company should be always ready and very well prepared to monitor any possible changes in the technologies and tackle the risks accordingly.

The next possible and very significant threat is changes in regulations. The dental equipment industry is an object of a very high concern from the various regulatory authorities. Due to the fact that the dental treatment and X-Ray devices are considered as the high class risks equipment, this industrial segment is always the matter of very strict control and supervision in terms of materials and technique used at all stages of the product life cycle. Thus, this threat can generate a lot of additional obstacles and longer time from the stage of product development till its physical existence than the products from other industries. Therefore, it would be at some extent harder for the company to move to some markets quickly and obtain the leading position there in a short period of time.

The significant changes in the global economic situation and very hard price competition in the dental equipment market segment are also very possible factors that may affect the company in terms of its profitability and physical existence on some of the markets.

An absence of the proper and prompt technical product support and knowledge transfer from the manufacturer to its partners and product users, especially for the

complex and technologically advanced products, poses very serious threat to the company's sales and further development on different markets worldwide.

The company has very wide product range, and new products are coming faster and faster. Technology and the new product features are also having significant changes and improvements. There is no sense for the end user to purchase product without knowing for what purpose this product and some of its specific futures were developed and how they can be utilized.

Education and knowledge transfer in this sense are the core elements to tackle this threat. When knowledge has been transferred to the company's partners in a proper way, they will be able to forward this knowledge further to their customers and the end-users. The knowledge transfer and education will also affect the company partners' capability to provide their customers with better and more efficient service, appropriate technical and prompt aftersales product support.

The results of performed SWOT analysis for Planmeca Oy are represented in the Figure 28.

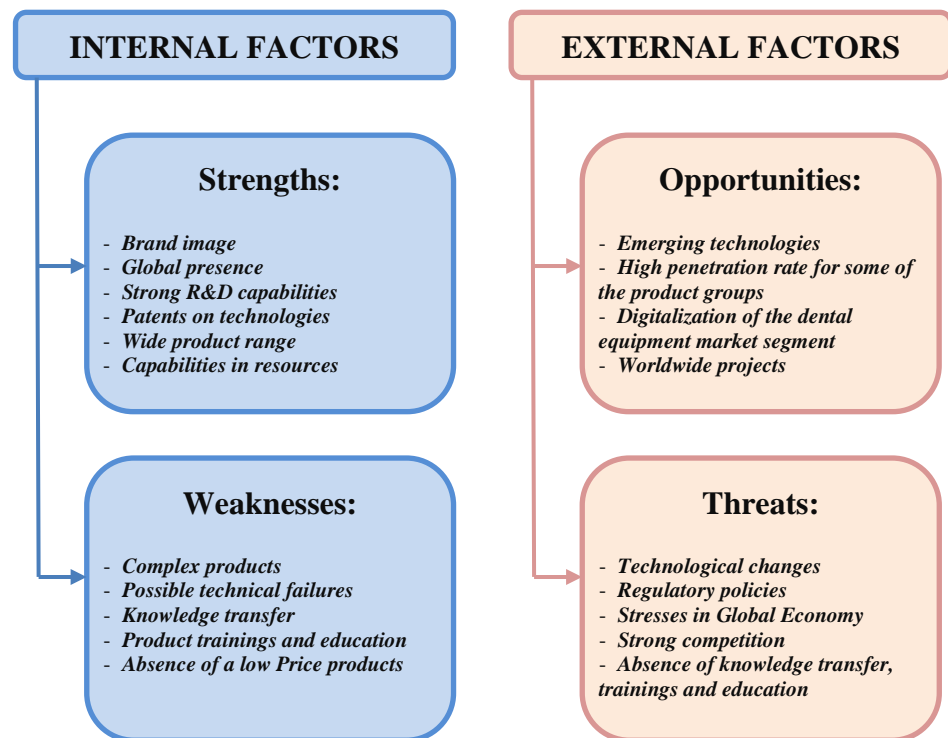


FIGURE 28. SWOT analysis of Planmeca Oy

6 DISTRIBUTION SOLUTIONS FOR UKRAINE

6.1 Present Planmeca's distribution strategy in Ukraine

The current manufacturer's sales and product distribution approach towards market of Ukraine is [REDACTED]

[REDACTED]. This clause represents the most significant aspects and conditions relevant to this particular approach between involved parties.

Products:

Currently, the products offered to the market of Ukraine with [REDACTED] into three main categories: Dental Care Units, Digital Solutions, X-Ray and CBCT division products.

All of the Planmeca Oy products are developed, designed and manufactured in accordance with the standards and requirements for the manufacturing of class 2a and 2b medical equipment and devices. In order to obtain these certificates, the manufacturer should fulfill all specific requirements and certification procedures for the quality system in design and manufacture of the medical equipment (Directive 93/42/EEC), the quality management systems (ISO 13485:2003), and the environmental management system (ISO 14001:2004). Despite the fact that registration procedures of the dental and X-Ray equipment in Ukraine require in a local technical and clinical testing, all of these certificates are necessary and should be presented by the manufacturer at the first stage of the product registration procedure.

Dental Units



Digital Solutions



X-Ray and CBCT



FIGURE 29. Planmeca products currently offered to the market of Ukraine.
(adapted from Planmeca Oy product catalogue 2013)

Marketing and sales:

By [REDACTED] mentioned in the previous section, the manufacturer accepts conditions where [REDACTED] [REDACTED] within the time period of the valid [REDACTED] agreement.

However, the manufacturer [REDACTED] [REDACTED] its agent. The distributor shall refrain, outside the territory, from seeking customers for the product, from establishing any branch, or from maintaining any distribution depot.

In case if products are imported and/or sold to the territory of Ukraine as parallel imports by a third party, the distributor shall not be entitled to any remuneration for sales carried out as a result of such parallel import.

The distributor buys and sells the product in his own name and for his own account. The distributor always acts as an independent trade organization in regards of both the manufacturer and the customers. Furthermore, he is not authorized to act in the name or on behalf of the manufacturer or to bind the manufacturer in any other means.

All expenses, of whatever nature, incurred from distributor activities in selling and promoting the products on the market of Ukraine should be fully covered by the distributor, unless otherwise agreed by both parties in writing.

The distributor should promptly provide the manufacturer with all available information in regard with issues relevant to the marketing and development of the product, and information which is likely to be of use or benefit to the manufacturer.

Furthermore, the distributor should provide the manufacturer with all important information about the laws and regulations in relation to the products, as well as information concerning import regulation, labeling, technical specifications, safety requirements, environmental requirements, product liability and any other laws and regulations concerning any activity which are to apply in the territory of Ukraine.

Advertising and sales promotion:

The distributor is responsible for carrying on at his own expense, the publicity and sales promotion required for the satisfactory expansion of the product sales in the territory of Ukraine, and should arrange availability of the product brochures in the official languages, unless otherwise agreed by both parties in written.

The manufacturer should assist the distributor with all required information for advertising and sales promotion materials by providing the distributor with necessary available photographs, slides and other corresponding sales promotion material.

Product liability on the sales territory:

Under no circumstances, the manufacturer is liable to distributor for any consequential or indirect losses, damages, and loss of profits. The distributor should indemnify, defend and hold any claims based on defective quality of the products for which the distributor is to blame due to distributor's failure to properly store, transport, and install the products.

Furthermore, the distributor is fully responsible for providing customers with all necessary information concerning the product, marketing, advertising, and other relevant information given by the manufacturer.

The distributor is also responsible for complying with all laws, statutes and ordinances in the territory of Ukraine relating to the import and sale of the products at its own cost. The distributor shall indemnify and hold harmless in the event that any claim is made against it by reason of its failure to so comply.

Distributor and current situation with the sales in Ukraine:

The [REDACTED] market players in the dental equipment segment with the strong and well-established distribution network, and [REDACTED] of Ukraine. The [REDACTED] [REDACTED] product platform, with very wide range of dental

business related products and complex dental treatment solutions for different customer groups.

According to Table 5 represented in the section of the market potential based on quantity of the imported dental equipment to Ukraine in 2012, [REDACTED] [REDACTED] in selling dental units, imaging and X-Ray devices among other competitors in the same price level segment where Planmeca is.

The total quantity of the imported dental equipment devices in 2012 was [REDACTED], from which [REDACTED] or [REDACTED] were imported by the [REDACTED]. The following Figure 30 represents the market share of the [REDACTED] among its competitors in the same with Planmeca price range dental equipment on the market of Ukraine.

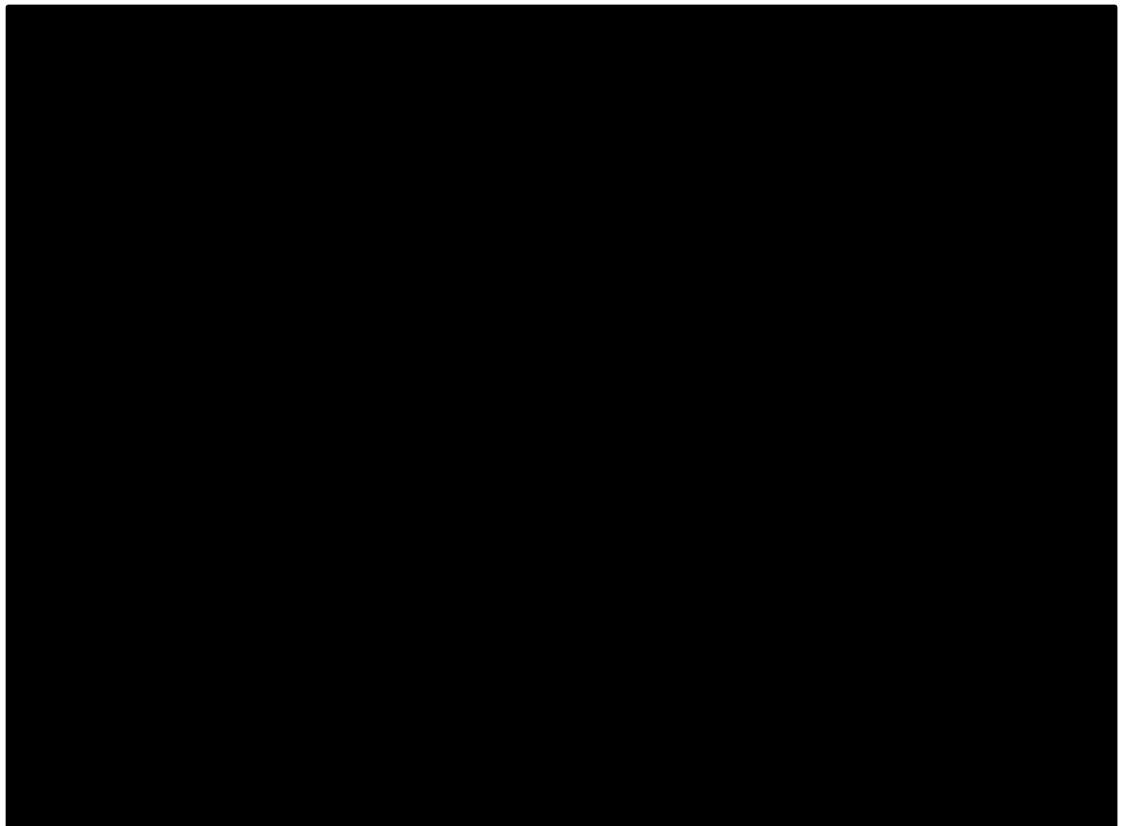


FIGURE 30. Market share [REDACTED] in Ukraine

From the manufacturer's perspective, an opportunity to enter the market through the partner whose market share and geographical coverage in such specific product business segment are relatively high, such alternative would be one of the most appropriate, especially if the sales are organized with the use of terms and conditions on the basis of direct exporting.

According to theory, strategy based on direct exporting is one of the easiest to implement, requires in less investments, and one of the best approached to enter a foreign market at a minimum level of risks (Onkvist S. and Shaw J. 1997, 328). Depending on the contract terms of delivery, the product manufacturer can also avoid many other operational costs and other expenses relevant to the product customs clearance, customs duties and taxes on import. In addition to this, direct sales contracts allow foreign company to fully avoid taxation in Ukraine.

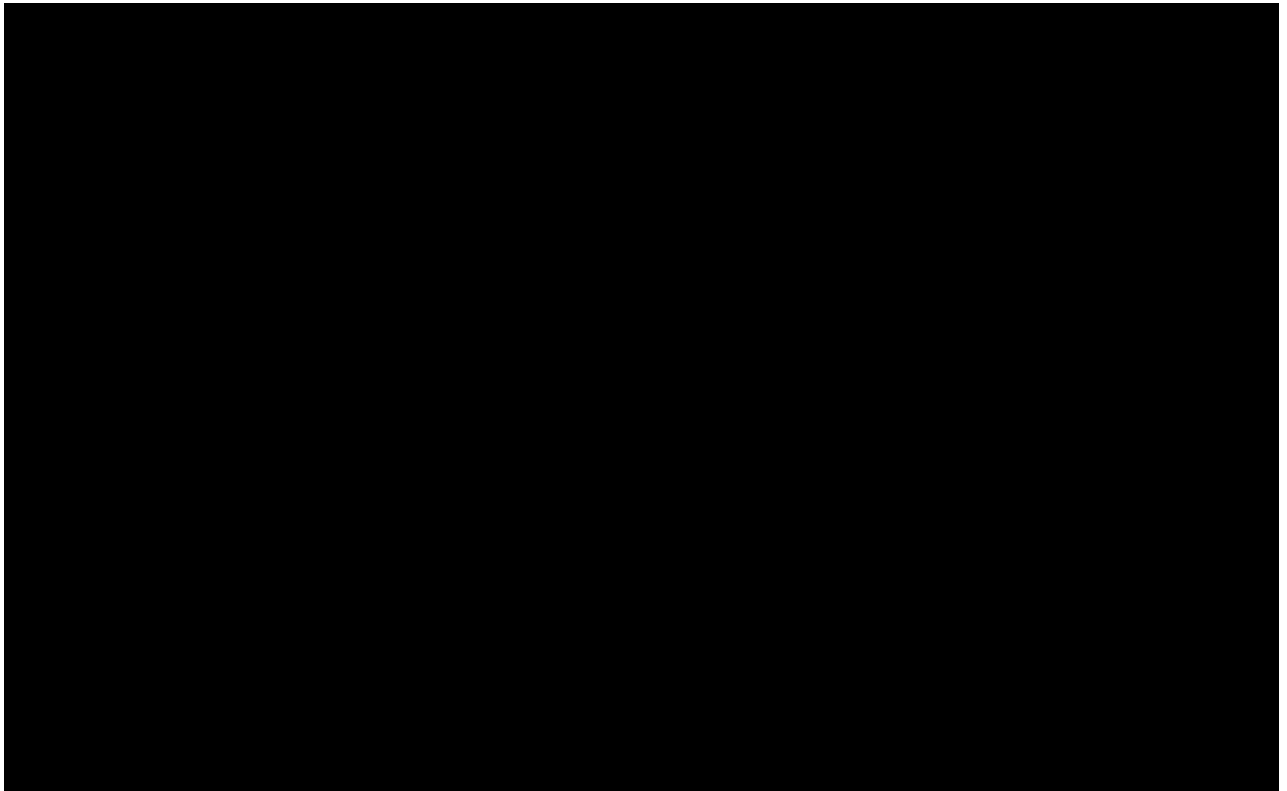
Although, the direct exporting is one of the safest strategies to enter foreign markets, this approach has also several negative aspects. These factors are mainly referred to the nature of circumstances which make the company's marketing strategy inflexible and unresponsive.

Typically, the companies who hold in their hands a solid part of the market share and at some extend part of the market potential are strong enough to dictate their own rules for those who are interested in such potential. One of the most common conditions to gain cooperation with the largest market players in the dental business segment is exclusivity.

In majority cases, exclusivity works in a favor of the product distributors, unless the one, who gives exclusivity, has very strong brand image and high product demand on the market. Furthermore, the exclusivity provides the distributors with very favorable conditions in many different ways, and vice versa limits the manufacturer from gaining additional opportunities from the market.

██████████ in Ukraine, Planmeca Oy is ██████████, the figures of the company's achievements represented in the following Table 8 show, that in terms of sales performance the choice of market entry mode and all subsequent strategic steps in cooperation with the Ukrainian dental equipment market have been chosen correctly.

TABLE 8. Sales of Planmeca equipment in the market of Ukraine (2005-2012)



6.2. Distribution solution alternatives

6.2.1 Alternative 1: Agency and commission arrangements

The contracts based on this alternative will provide the company with comfortable conditions for the structuring and developing additional sales of the product in the market of Ukraine. With selection of capable and trustworthy agent, the company may receive an additional value to its existing channels of distribution on the market.

Although, the agent will handle narrow and at some extend limited group of customers, for instance public sector, governmental tenders or projects, his activities will provide the manufacturer with an additional opportunity to sell the products that are customized or have some specific non-standard package features.

Furthermore, from the legal perspective, arrangements based on conditions of the sales through an agent, allow the company to carry out its commercial activities

without setting up a corporate vehicle in the country. This means that in case of selecting this alternative, the company avoids various risks and additional expenses such as costs on accounting, employing personnel, and various other costs associated with the business vehicle running processes.

However, due to the fact that the role of the agents is mainly concentrated in the scope of collecting invoices, they do not take any responsibility on the title of the product. This aspect, especially in the case with Ukraine and its regulatory restrictions, generates much higher degree of risks for the manufacturer.

In addition, if an agent acts on behalf of the manufacturer exclusively, and the supply or its commission services are not relevant to its core business activities, the contracts and financial arrangements may be a subject to an additional taxation in Ukraine.

6.2.2 Alternative 2: Direct representation in B2B market segment

This alternative has many advantages that appear in a form of better control and communication between the market and the manufacturer. It also helps to ensure that efforts to induce support of follow-on sales are efficient, optimizes investments, and provides the manufacturer with the immediate feedback and information from the market.

By taking into account specificity and complexity of the dental equipment products, the entry mode with use of this particular alternative can be performed through establishing of B2B sales with the wholesalers and retailers.

Despite the fact that from the legal point of view, the representative office is not a legal entity and considered as a division of the foreign company registered in Ukraine, this entry mode, especially in terms of commercial purposes is a subject of the permanent establishment and additional (double) tax treatments. Such taxation is applicable only to a part of the company's profits attributable to the representation office in the country. The representation offices which undertake the nature of the preparatory actions do not require in the permanent establishment and are not subjects to the corporate income taxes in Ukraine.

Furthermore, the negative aspect of this alternative is that this entry mode requires in an additional ongoing costs for maintaining capable marketing and sales staff in Ukraine. If market sales are relatively low, they may not justify the costs, and in such case this particular entry mode will not be a very practical solution for entering the market.

6.2.3 Alternative 3: Establishment of a subsidiary in Ukraine

This entry mode refers to the concept of FDI, and will provide the manufacturer with an opportunity to fully control its sales operations in the market of Ukraine. According to the Law of Ukraine on “Foreign Investment Treatment”, investment can be made by any foreign company or individual in compliance with the Ukrainian laws for profit generating purposes or for achieving a social effect.

The move towards this alternative can be achieved by establishing of the new company on the basis of sole or jointly with Ukrainian partner ownership, or by acquisition of an existing company in Ukraine.

There are some restrictions on FDI treatments exist in the Ukrainian regulations, but those are mainly for the industries such as armament, explosive, launch vehicles development, production and handling industries, media, banks, and some other industrial areas that are relevant to the national interests of Ukraine.

Despite the fact that this particular entry mode is considered as one of the most extensive in terms of higher possibilities for the faster expansion, greater control and higher profits, this alternative requires in very significant commitment of the capital investments and managerial efforts to make subsidiary workable and perform efficiently.

In the dental equipment industrial segment, this alternative can be considered as one of the most appropriate, especially if the brand image is strong and customers' loyalty have been already established. In such circumstances this alternative becomes less expensive for the manufacturer, generates much better environment for avoiding communication barriers with the product end-users and conflict-of-interests problems that may arise with the use of other entry mode alternatives. In addition, this entry approach enables the manufacturer to transfer new products,

knowledge and technologies to the market in much more efficient, faster and easier way.

However, by taking into account aspects described in the section of PESTLE analysis of this study, and the fact that this market entry mode requires in a greater financial investments, the manufacturer should be very well aware and careful in case of considering this particular mode as the proper entry alternative for the market of Ukraine.

6.2.4 Alternative 4: Joint Venture with Ukrainian partner

This entry mode alternative will help the manufacturer to gain wider opportunities from the perspective of deeper level of participation on the market of Ukraine.

The use of joint venture alternative with the local partner provides the manufacturer with an ability to be more extensive and more efficient in cooperation with the market, share possible risks, and combine its strengths with the strengths of the joint venture company.

For instance, the joint venture company might have an in-depth knowledge on the dental equipment market and the extensive well-established distribution channels in Ukraine. The manufacturer might deliver its strengths in terms of the global brand recognition, customers' loyalty and technology.

By combining such strengths together through an efficient collaboration, both companies will gain better market advantages, provide improved customer services and technical support, create closer relationships with the customers, and serve them in a shorter ordering and delivery time.

However, cooperation with the joint venture requires in higher investments and significant amount of the management time. Management styles, corporate cultures and strategic objectives can be different, and it might take time before the companies will find and handle the common language of how to proceed further effectively. It will be even more difficult if the companies are having different resources and capabilities.

From the legal point of view, the foreign investor has the right to enter into joint venture with its partner from Ukraine, which in the formal way will be registered in a form of simple partnership or joint-cooperation agreement. All investments on the basis of the joint venture cooperation are subject to the state guarantees and should be registered with the local state authorities.

6.2.5 Alternative 5: Hybrid mode

The hybrid mode of entry into the dental equipment market refers to a combination of the existing sales approach with some of the other alternatives described in this section. From the strategic perspective, the general formula and priority of this approach is [REDACTED] the sales platform, but [REDACTED] in Ukraine.

The key role of the company's representative would be mainly associated with the proper and efficient technical and product trainings support of all selling Planmeca products organizations, as well as the knowledge transfer on the new products and innovations to the end-users. By taking into account that some of the product groups are very complex and relatively expensive devices, the way to approach customers should be also complex and at some extend very specific.

Proper education of how the product features can be utilized and how they help the dentists to make their work flow processes easier is one of the key arguments for gaining their attention and the higher degree of the loyalty in the decision to purchase.

Another very important aspect is aftersales and technical support. For dentists who are buying such expensive equipment, this aspect is always in the list of the highest priorities. They invest in their clinics to develop their businesses, and consequently prefer to be fully secured in case of technical failures of the purchased equipment.

This factor is very critical, if technical personnel are not capable to resolve the problems properly and within certain period of time, the consequences for the

product image will be unpredictable negative. Therefore, the appropriate trainings of the technical and aftersales personnel should be always in the top priority of the manufacturer.

Furthermore, direct representation will provide the manufacturer with an additional opportunity to control, get feedbacks and direct information from the market. The outcomes from the market can be used in order to improve and modify various processes relevant to the strategic planning and its implementation on the market of Ukraine. The concept of Hybrid market entry alternative is represented in the Figure 31.

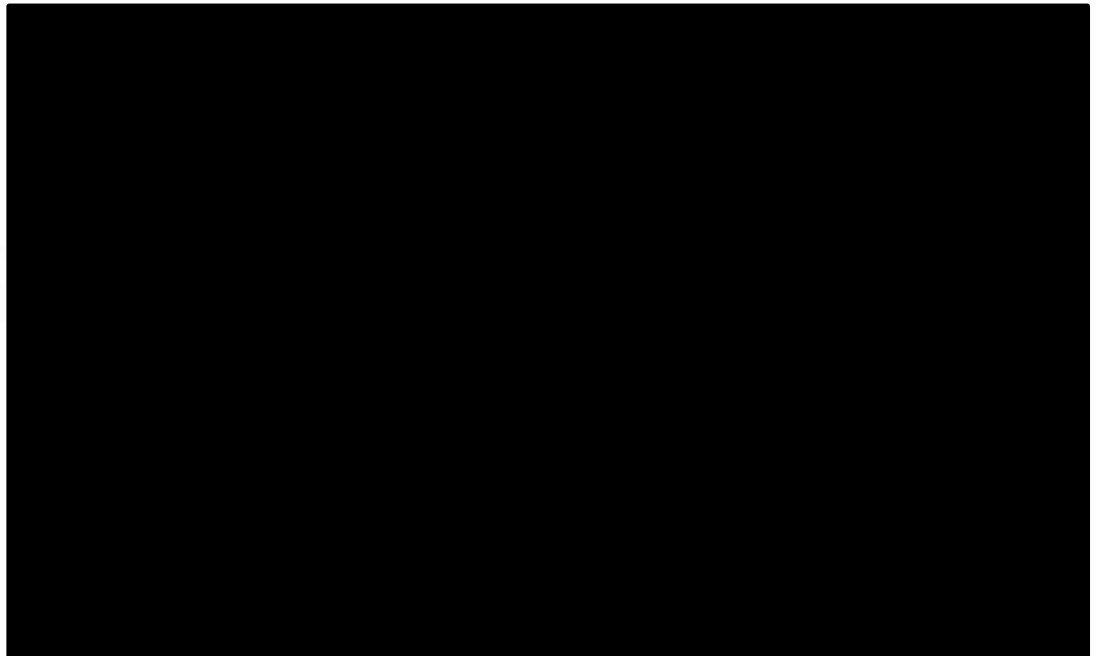


FIGURE 31. Entering dental equipment market of Ukraine, Hybrid mode

7 CONCLUSION, FINDINGS AND RECOMMENDATIONS

The purpose of this thesis was to analyze Finish manufacturer's existing product distribution strategy towards market of Ukraine, discover other distribution alternatives that could be applicable for entering this particular market, and based on findings rewrite the map of the current approach.

The study started from identification of different market entry modes, describing the main internal and external business factors and major components which may affect the selection of market entry alternatives from different perspectives. Furthermore, the theoretical background used in this research work provided researcher with broad idea of how the concepts of marketing strategy and distribution channels are functioning, and what are the key components that should be taken into account in the scope of entering foreign markets.

Conceptually, theories are giving the knowledge of how foreign markets can be entered and what are the main forces that can affect the mode of entry in a very broad sense. For instance, the notion of entry mode strategy provides with the basic idea on the main internal and external factors which should be taken into account while planning the entry mode on B2B basis for all foreign markets and different market segments.

However, in some instances implementation of the theory can be limited, because many additional factors which are relevant to the certain scope of business segment are at some extend unique and should be defined for the particular market, specific product and specific customer groups differently.

The theoretical background can be used as the platform to detect and develop an overall direction. In order to conduct workable strategy, each company should consider its own business formula and number of various factors that are inherent to the specific company and the specific market. Approaches to different markets cannot be generalized; there might be some similarities, but in overall the majority of significant aspects for particular market can be only obtained in practice.

To be able to develop a proper procedure for determination of the best possible alternatives to enter the Ukrainian dental equipment market and based on findings rewrite the map of company's current approach, the study was supported by different models and marketing analysis implemented in the single case study.

The models of the analysis utilized in this research work have shown a high degree of their applicability and implementation. For instance, evaluation of the major forces and factors using Porter's Five Forces and PESTLE analysis have provided this research with much more informative background on the current conditions of the dental equipment industry, the market of study in general, and helped this study to improve reliability of the results and findings.

Findings of the empirical research show that current Planmeca's product distribution approach towards market of Ukraine [REDACTED]. Sales and growth indicators are [REDACTED], and risks with the use of [REDACTED] are minimal. Furthermore, the [REDACTED] the dental equipment in Ukraine, [REDACTED] for the future growth and development.

At some extend, the overall focus of this research was to discover of how and through which type of distribution channels the product can reach its end-users effectively, and how to make customers loyal to buy more and only Planmeca's product. Due to the fact that dental equipment is very specific type of the product, in order to reach its potential customers, the manufacturer requires in a complex and highly sophisticated distribution system.

The answers for the research questions stated in the beginning of this study are answered. A combination of the theoretical concepts and practical knowledge are discovered, they practical implementation on the market of Ukraine are discussed and represented.

The market potential in the dental and X-Ray equipment of Ukraine is explored. The results of this research question show that Ukrainian market has great potential for the Planmeca's product today, and high potential for the developing sales, especially for the X-ray and CBCT devices in the near future.

The critical analysis of the case company's existing sales and distribution strategy towards Ukraine is performed. The findings from this research question have demonstrated that there are several significant aspects to which company should address more attention. The key aspects [REDACTED] in Ukraine.

The comprehensive industrial analysis of the dental and X-Ray equipment in Ukraine is executed with the use of Fife Porter's Forces model. The results of this research question have shown that this industrial segment is difficult to enter, because all of the forces in the dental equipment industry are either strong or medium.

Other possible entry alternatives for the market of Ukraine are analyzed and represented. The findings of this research question show that from different perspectives, the current company's distribution approach is [REDACTED]. However, in the long-term perspective, this approach requires in additional improvements. Due to the fact that some of the products are very complex and require in a proper knowledge transfer to both dealer and the end-users, the hybrid mode is offered [REDACTED] for the future development.

The findings associated with the primary research have revealed that in the dental equipment business segment, the notion of efficiency and quality of the product distribution cannot be counted only in numbers of the sold equipment. There are a lot of additional aspects involved in this meaning, where the most sensitive are installation, after sales and technical support. Therefore, the manufacturer should be confident that chosen distributor is capable and have enough resources to offer the end-users complex and complete solution.

Another significant finding refers to the concept of marketing and the way of approaching the customers in Ukraine. Usually, the dentists know what they need, but in many cases their decision to make the purchase is highly depending on two main aspects. The first aspect is relationship with the dealer, and the second aspect is how dealer treats them. In this sense, [REDACTED] of the [REDACTED]

manufacturer. The company [REDACTED]

programs.

The significance of this study can be described through the multiple perspectives. As to the company: it brings the value in terms of the broader understanding of the dental equipment industrial segment in Ukraine, market specific factors, and provides the manufacturer with an additional opportunity to recognize its main advantages and possible disadvantages among competitors.

As to the author: the study enables to understand at the deeper level the most significant and sensitive aspects of the product distribution in the dental business segment, and the ways of how distribution channels can be modified and adjusted in order to improve the manufacturer's position on the market.

Despite the fact that current strategy towards product distribution in Ukraine is [REDACTED], the author's suggestion for the company is to keep an eye on changes, and think how its strategy can be adjusted in accordance with such changes.

Furthermore, the author recommends addressing more attention towards aspects of the risks that may occur in the form of consequences from [REDACTED] territory of Ukraine.

Time is changeable and what is workable today cannot be always workable tomorrow. Therefore, in the long-term perspective, the further important steps to ensure the manufacturer's presence on the market of study are necessary.

The reliability of this research has been provided by implementation of the whole research process described in Chapter 3, and improved by utilization of the practical knowledge and collected data for performing the case study. Theoretical framework has been used in order to conceptualize the scope of the study, and to check whether results and findings from the specific market are matching with the existing theories in terms of their practical applicability.

The processes and analysis used in the case study were selected by the researcher from the perspective of the consultant with the real background and work

experience in this business segment and the market of study, and were performed in accordance with the preliminary developed from the practical direction logical research plan. Due to the fact that the nature of this study has very close connection with the number of primary sources for obtaining necessary data and information, the level of reliability of the results has been additionally ensured by the quality of collected and utilized information.

However, the study has been performed for a very specific product, single manufacturer, and a particular product price range in the specific market segment. Therefore, the results of this study in terms of their validity and reliability are at some extend limited. The similar study on the same product category, but with different in respect of at least one of the mentioned above aspects, would provide the study with different results, findings and viewpoints.

There are many different schools of thoughts of how strategy is conceptualized. The notion of strategy in this research work has been mostly determined and developed through the school of its theoretical interpretation. So, in this sense some findings and outcomes of the study can be limited, because development of the strategy based on mainly theoretical conceptualization may generate a lot of additional limitations in terms of its implementation into practice.

Furthermore, the results of this research are limited since the focus of the study has been mainly associated with the B2B segment. Further research would be needed in order to determine the nature of findings in relation with B2C segment and with other additional criteria which may generate different impacts on the selection of the appropriate market entry modes.

8 SUMMARY

The findings of this research work were developed through the process of analysis of the different market entry modes, distribution channel structures, major forces and factors that affect the structure and the choice of entry mode.

An emphasis on the full and detailed description of the distribution channel, its main components and derivatives has been utilized with the purpose to demonstrate their importance in the process of complete value chain creation, especially for the products that are complex and require in a complex after sales and technical support.

All research questions are highly connected to the nature of the study. Their role has contributed this research work in the form of the key elements to disclose the core of the problem, as well as to develop and perform the research process efficiently. Such elements were: assessment of the current situation on the market of study, current environment within the focus industry, company's current situation, identification of possible risks and solutions for the future development.

The study has been focused on B2B product distribution segment, and all research questions stated in the beginning of this research work are answered. The results obtained from the study have proved that [REDACTED] in Ukraine. The key facts are evaluated and highlighted, suggestions for rewriting the map of current distribution approach are recommended.

The outcome of the study indicates that overall situation in the dental equipment market of Ukraine continues to be strong. In order to ensure the stable growth and gradual expansion on the market, the manufacturer should pay more attention towards product technical support issues, provide better education to the dealer's sales and technical personnel, and maintain more intensive knowledge transfer on the new and complex products to the end-users.

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APPENDICES

APPENDIX 1

Interview questions with Case Company:

- What is Planmeca general corporate marketing and product distribution strategy?
- Does company have any specific written statements on company's vision, mission and policy towards future development in a strategic sense?
- What are the company's objectives for the next 2-3 years?
- How strategy is being developed towards different markets worldwide?
- Does the company make its strategic decisions and their implementation based upon the real strategic plans?
- What is the company strategic vision towards entering new and emerging markets?
- What methods, tools and strategies company uses to go to such markets?
- How company maintains its brand image and develops customers' loyalty in a long-term perspective on different markets worldwide?
- What are the key components for being successful on different markets worldwide?
- How Planmeca differentiate itself in order to be better than competitors?
- What are the key industry trends that are fueling the company's success?
- What are the company's strengths, possible threats, weaknesses and opportunities?

APPENDIX 2

Interview questions with Planmeca partners and sub-dealers:

- What is your name?
- What is the company name you are working for?
- In which region of Ukraine the company is located?
- What is your position in the company?
- What are the products your company offers to the end-users?
- For how long have you been working with Planmeca products?
- What do you think about Planmeca as a company in general?
- What do you think about Planmeca products?
- What are the values and benefits you recognize from the selling Planmeca equipment to your customers?
- What is your opinion about Planmeca image in Ukraine?
- What are the key aspects for such assessment?
- What are your customers say about Planmeca?
- Is Planmeca as a brand and product preferable in Ukraine?
- What are the main positive and negative aspects of Planmeca in Ukraine?
- Do you think such aspects are more relevant to the market specific factors or they should be more addressed towards manufacturer?
- What makes Planmeca different from other dental equipment you offer to your customers?
- What do you think about Planmeca presence in terms of marketing, product promotion and product support in Ukraine?
- Based on assessment of current situation of your cooperation with Planmeca, do you see your future with Planmeca?
- If company adjusts the negative points you described before, do you think it will help you sell more product and attract more customers?
- How would you rate the quality of support from the manufacturer?
- How about product distribution efficiency, do you always get your order from you partner in time?

APPENDIX 3

The list of interviewers:

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Havka R. 2013. Planmeca Brand Manager. Krym-Medmarket Group (Chernovci). Interviewed 23 August 2013

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